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March 30, 1981
Volume 127, Number 7

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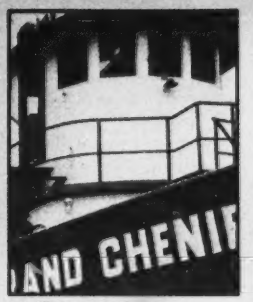

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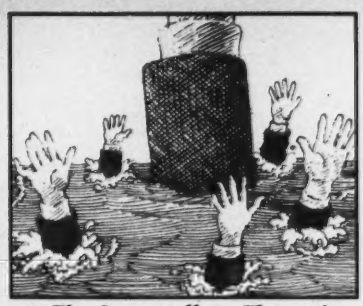

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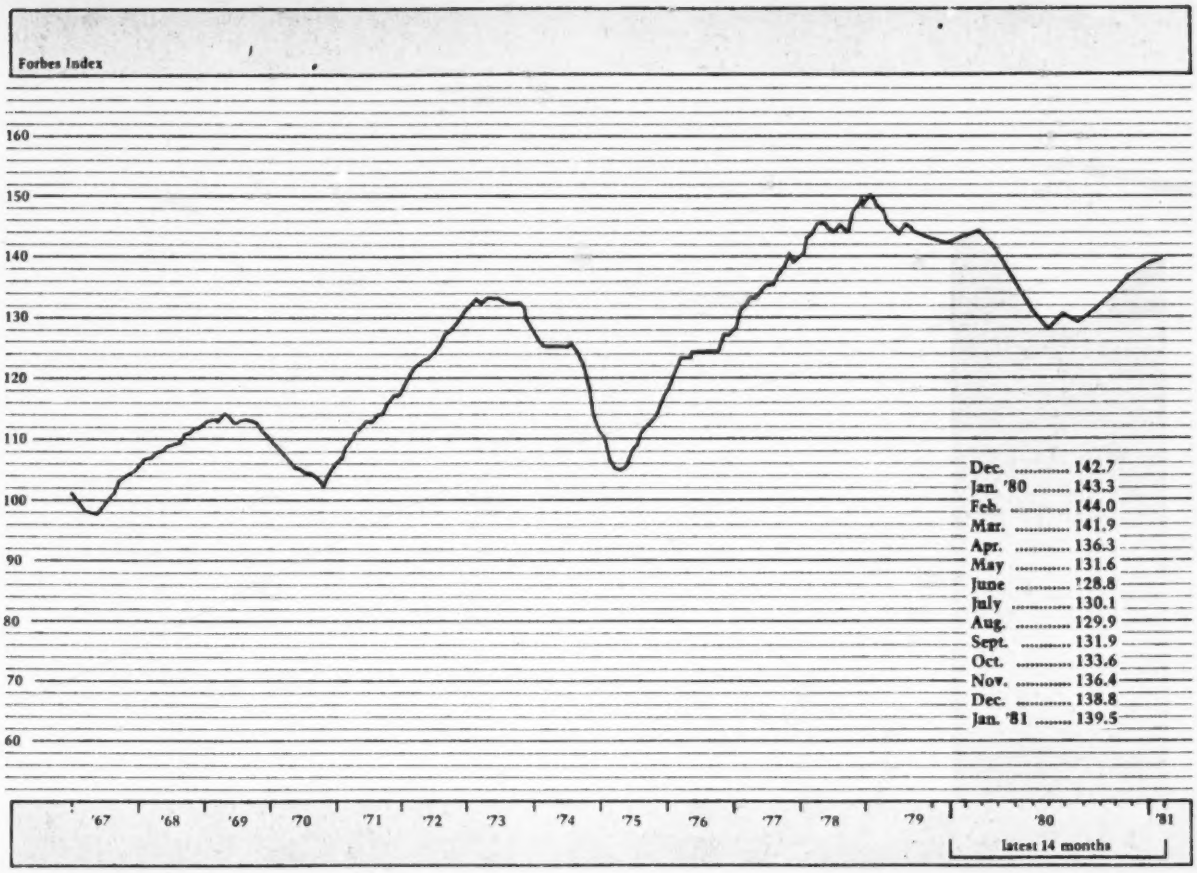
The Forbes Index



The Forbes Index Components

Is a top in sight? This issue's index is still rising, but at an ever slower pace. The gloomiest piece of bad news comes from unemployment claims. When these grow, it is a sign of economic weakness—and for the most recent reporting period the claims figure was up more than 3%. That is hardly cheering. But even worse, it marks the reversal of an eight-month decline.

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

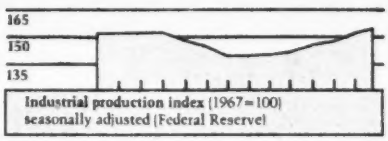
Total retail sales

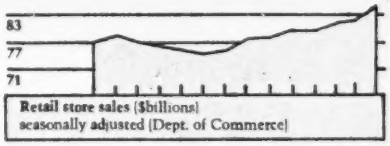
New housing starts

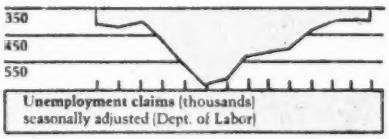
Personal income

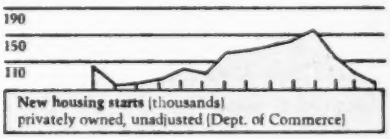
The change in the amount of consumer installment debt outstanding

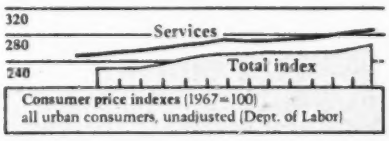
To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.

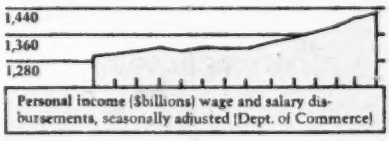


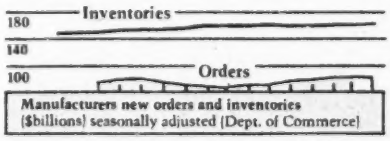


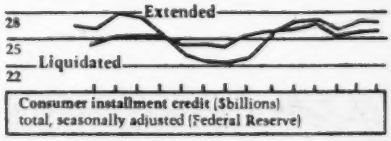












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Cut away the fat from the synthetic fuels industry, and what's left? The muscle of big oil.

Shaping up synfuels

By Carol E. Curtis

IN THE BARRAGE of Reagan budget cuts, the synthetic fuels industry was a tempting target. Jimmy Carter's $20 billion bonanza of energy and construction subsidies was just too big to ignore.

Despite the Administration's economy binge, the synthetic oil and gas program is very much alive and well. The new Synthetic Fuels Corp., with a yet-to-be-named board and director, still has $17.2 billion in backstop financing. That is the same figure Carter proposed, minus direct grants to companies. These relatively minor cuts leave many major projects intact.

There is, however, a new slate of winners and losers. To qualify for Synthetic Fuels Corp. money now, participants must ante up 40% of the equity—compared with only 25% before. This means projects backed by major oil companies will have a clear edge. "People will have to find more cash, and if you don't have oil money, the odds against getting into the game are much higher," says Roger Copland, a vice president of Washington Analysis Corp., a subsidiary of Bache.

In addition, the Reagan emphasis is on projects that produce liquids rather than gas. Of those efforts the government is most anxious to push, only one has gas as its main product. This change stems from improved prospects for U.S. gas supplies. This year should be the first since 1967 that the nation adds as much gas to its reserves as it consumes. At the same time Administration planners point out that liquid fuels, being direct substitutes for oil, can immediately offset oil import bills.

The long-troubled Great Plains gas project may be an early candidate for the Reagan chopping block. The plant, sponsored by Detroit-based American Natural Resources Co., was the core of Carter's synfuels program. But it has stumbled because potential customers, including General Motors, refuse to pay the surcharge needed to finance it. The project is now in limbo pending a decision on $1.8 billion in federal loan guarantees.

On the plus side, however, one of the Synthetic Fuel Corp.'s first likely acts will be to commit $3 billion in Defense Production Act money to three projects that produce liquids. These efforts, and others slated for government funding, will still meet an ambitious target, say Reagan planners, who hope their tough stance will minimize cost overruns and project abandonment. Cumulative production from projects that will probably be cut is equivalent to only 100,000 barrels of oil a day—less than 2% of what the U.S. now imports.

Still, some industry veterans see a warning in the new agenda. Robert Hanfling, former deputy undersecretary at the Department of Energy who managed the agency's synfuels program under Carter, believes more oil-company involvement will slow the industry down. "The Exxon philosophy," he says, "will be to go commercial more gradually."

Bill Curnow, a spokesman for American Natural Resources, also questions the wisdom of leaving the fledgling industry mostly to oil giants: "It raises the possibility that only the big can participate in certain areas of U.S. business," he says. "Are we going to leave a whole new industry to the top oil companies?" At $2 billion-to-$3 billion a plant, the answer seems to be mostly, Yes. ■

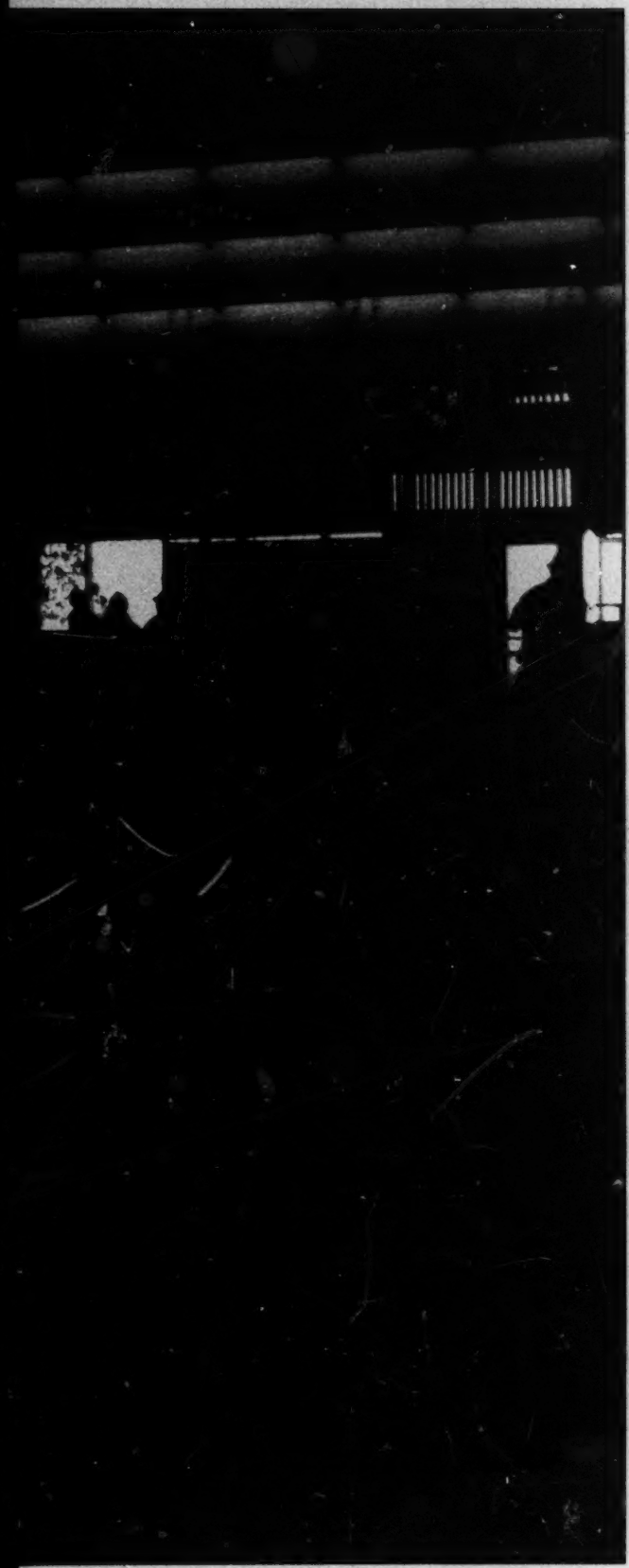
Color them risky

No synfuel projects are shoo-ins, but those most likely to win government support are shaded green below. They have big oil behind them. Other efforts, shaded yellow and red according to the prospects for completion, have less affluent sponsors or will produce lower-priority gas from coal instead of liquid fuels. Most project leaders plan to share ownership with at least one partner.

Project leader (name)	Architect/ engineer	Government funding to date	Product/ daily output
Exxon (Colony Oil Shale)	Foster Wheeler, Santa Fe Intl	unallocated*	shale oil/ 47,000 bbl
Union Oil (Union Oil Shale)	Stearns-Roger, Morrison-Knudsen	unallocated*	shale oil/ 50,000 bbl
Texaco (Cool Water Coal Gasification)	Bechtel		high, med Btu gas/21 mil cu ft
Gulf Oil (Solvent Refined Coal II)	Raymond Intl, Wheelabrator-Frye	$90 million	fuel oil, naphtha, gas/20,000 bbl
Koppers (Tennessee Synfuels Assn)	Wheelabrator-Frye	unallocated*	gasoline, other liquids/10,000 bbl
Ashland Oil (H-coal)	Bechtel	$215 million	syncrude, fuel oil/50,000 bbl
Amer Natural Resources (Great Plains Coal Gasification)	Combustion Engineering, Raymond Intl	$25 million	high Btu gas/ 125 mil cu ft
Memphis Light, Gas & Water	Foster Wheeler	$26 million	med Btu gas/ 50 mil cu ft
Northern Ill Gas (Illinois Coal Gasification Group)	Dravo	$50 million	high Btu gas/ 24 mil cu ft
Conoco	Foster Wheeler	$38 million	high Btu gas/ 19 mil cu ft
Texaco	Enserch	none	med Btu gas, methanol/ 300 mil cu ft

*A portion of $3 billion in Defense Production Act funds.

Sources: Companies; Energy Department; Washington Analysis Group.



There's been a bull market in Thoroughbreds for over a decade. Is it tulip-time in horseland?

Racing toward a fall

By Howard Rudnitsky and Alyssa A. Lappen

IN 1955 A SLEEK BAY STALLION named Nashua won nearly every race there was—but not the Kentucky Derby. Then he avenged that humiliation by leaving Derby winner Swaps 6½ lengths behind in a memorable match race at Chicago's Washington Park. By the end of his career, Nashua had won nearly $1.3 million in 30 races. In 1955 a syndicate, including horse fanciers like Paul Mellon and Harry Warner, paid a record $1.3 million for him, and that bet came in better than many daily doubles: So far, Nashua has sired nearly 500 runners, and his offspring's winnings exceed $14 million. Still active at 29, he will visit 35 broodmares this season.

Such is the lure of horseflesh. In today's well-bred world of racing, however, lots of numbers are running far ahead of inflation. Seven-figure prices are no longer extraordinary for Thoroughbred mares and yearlings with a good record or promising lineage. Alma North, for example, sold for $1 million in January at an off-season auction that usually attracts neither the best horses nor the richest bidders.

And that's only the beginning. Thoroughbreds are the equine equivalent of the New York Stock Exchange, and a stallion with a good track record is like a good small oil company with proven reserves. The value that today's investors assign to a choice bloodline may be outpacing the future worth of oil reserves in the Overthrust Belt or Anadarko Basin. Spectacular Bid, for example, ended his racing career with total winnings of $2.8 million. His syndication price was a record $22 million. That yields a "syndication/earnings" ratio of 7.9 compared with 1.0 for Nashua.

Even lesser Thoroughbreds are setting new records. Last year the industry's top yearlings fetched an average price of $160,000. On the whole, values set by the 1980 sales were up more than 25% over 1979.

Racing has its Amex and o-t-c, too. In 1979 a half-interest in Niatross, a pacer who won 37 out of 39 lifetime starts and piled up over $2 million in purses, was syndicated for $4.8 million. That figure, which works out to a whole-horse value of nearly $10 million, was a record for Standardbreds. But even bigger money went for Easy Jet, a quarter horse. Breeding these quick, colorful runners is all the rage in oil states like Oklahoma and Texas, and Easy Jet is a remarkably prolific sire. Artificial insemination, something the Thoroughbred crowd doesn't allow, makes him all the more productive. Result: Since last summer investors ponied up nearly $13 million for a 42% interest in the 14-year-old stallion.

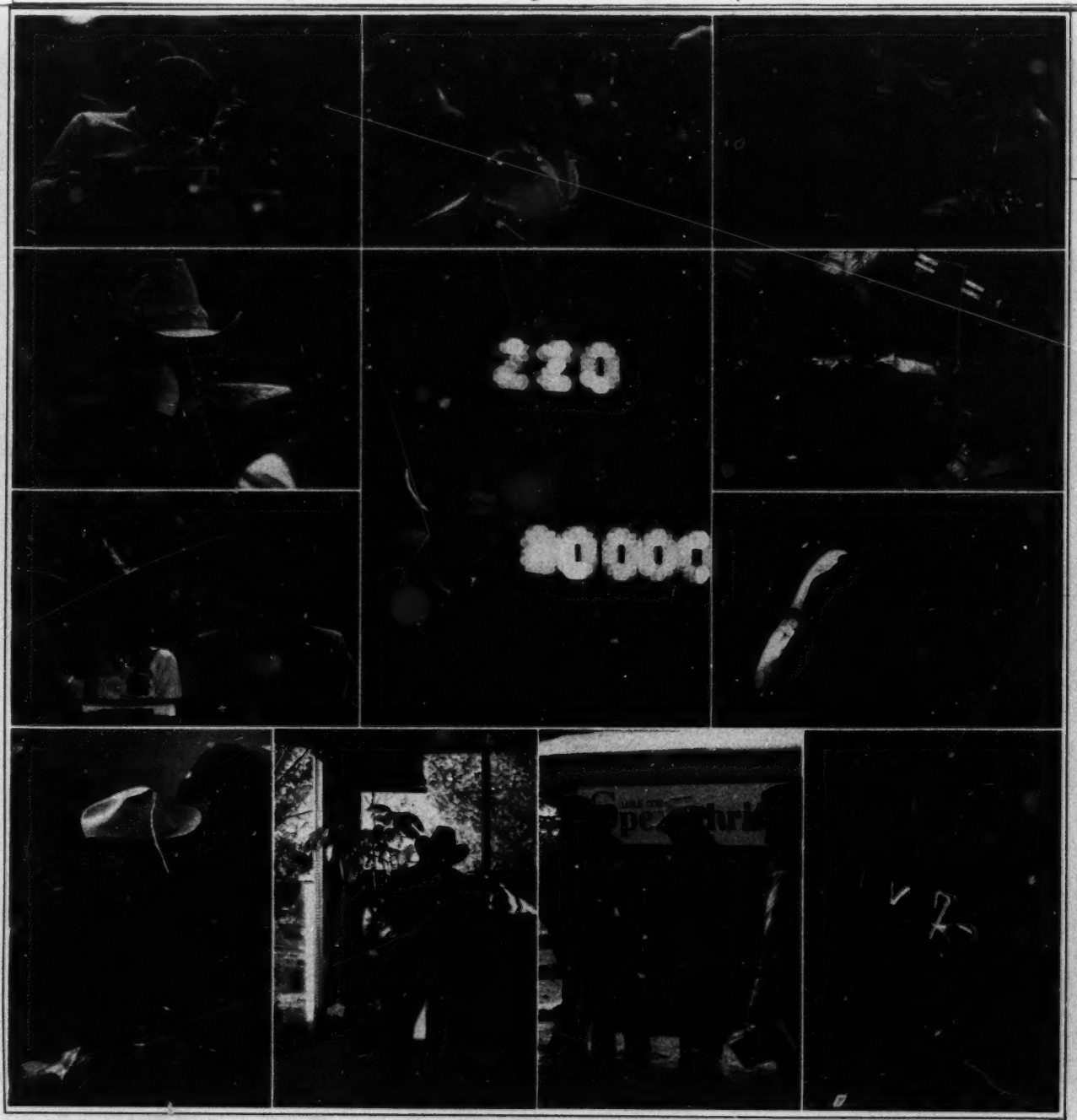
Add it all up, and tens of thousands of blood horses changed hands last year, with an estimated value of $1 billion. Since 1970, selling prices in all segments of the market have sported growth rates of over 15% a year, with the exception of the

When the hammer falls, it's yours

Horses, like other objets d'art, change hands at auction. And the equine equivalent of Sotheby Parke Bernet is the Keeneland Association, a complex of 52 buildings nestled on a 410-acre spread outside Lexington, Ky. That's a far cry from the small tent put up in 1943 when a handful of breeders and owners first gathered for a round of casual trading. Today there are four sales annually, with the most prestigious coming in July and November. Last year eager buyers plunked down $232 million for some of the nation's best-bred animals.

Keeneland sales are social affairs for the horsey set, and glossy catalogs list the provenance and vital statistics for every animal—much like gallery brochures describing French impressionists. Potential purchasers, whether they've arrived by private jet, limousine or pickup truck, make initial trips to inspect horses in their stalls. Then they head for the auditorium-like auction ring. There, to keep things straight, every colt or filly gets an identifying "HIP" number pasted prominently on both hindquarters.

To make sure it deals with serious bidders, Keeneland hands out computerized credit authorizations. These range from $10,000 well into the millions; payment for any cash purchase is on delivery, which can be moments after the sale. At the final hammer, of course, every buyer assumes he's latched on to another Nashua or Buckpasser—so the first feed bill is hardly a shock.



1974 recession, when Thoroughbred prices dipped. "Over the past ten years, horses have changed from a sport to a business," says Seth Hancock, who runs Claiborne Farms in Paris, Ky. "The dollars are so big that people have a different attitude now."

The old dream, of course, of striking it rich is still there; and even though fewer than 3% of all Thoroughbreds ever win a stakes race, long shots come in for owners, too. "I've played the market, and I've been in oil," says Louis Wolfson, who bred, raced and later syndicated Triple Crown winner Affirmed, "but there's no place where you can make money as fast as in horses." Several years ago, for example, two novices in their 30s bought Seattle Slew for $17,500. Later, he earned $1.2 million in purses and was syndicated for $12 million. Then there was retired developer Harry Meyerhoff. In 1977 he picked up a well-bred colt for a bargain $37,000, "partly because he toed out on the right front." The horse was Spectacular Bid.

Despite a few big winners, experts estimate that 85% to 90% of the individuals who take a shot at racing and breeding lose money. However, that's not quite as bad as it appears. Why? There are plenty of tax benefits to be corralled. Expenses, of course, are deductible. What's more, horses can qualify for accelerated depreciation, and down-the-line income from the sale of a purse-winning colt or a well-bred filly often becomes a capital gain. "You can do the same thing with oil and gas," explains one breeder. "But how many people do you see hopping on a private jet to fly out and look at their wells?"

Those bottom-line incentives are a partial explanation for the recent run-up in the value of horseflesh—but not for the reasons you might think. "Our industry has never been a really good tax shelter," says John Finney, president of Fasig-Tipton, a Kentucky-based auction firm. "But since 1976, when the government weeded out other alternatives, more and more investors have been getting involved."

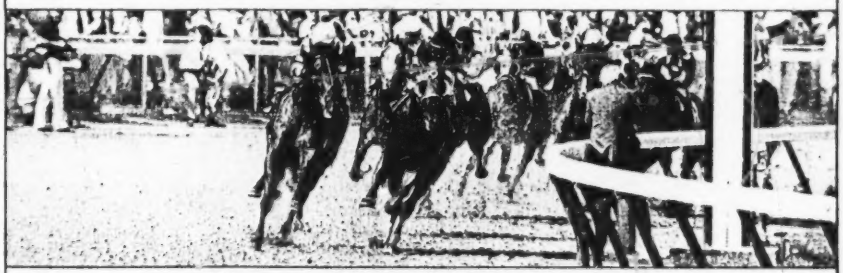
Not surprisingly, the nation's horsemen are galloping to take advantage of the proposed Reagan tax package. Breeders assume they'll be included in the Administration's plans to shorten the useful lives of certain farm equipment and livestock from ten years to four years. They are also plumping for the right to take a 10% investment tax credit.

Still, some of the most aggressive current investors are people who may not be concerned with U.S. taxes at all. Foreign money now accounts for as much as one-third of the purchases of select yearlings. The more prominent buyers include Greek shipping magnate Stavros Niarchos, who paid $1.7 million for a yearling colt last July. Robert Sangster, head of Britain's lucrative Vernon Soccer Pools, has put nearly $10 million into American horses over the past four years. And several Japanese industrialists recently bought a colt for $1.6 million.

Arabs like bluegrass, too. Mahmoud and Mustapha Fustok, Saudi Arabian oil tycoons, apparently do things in a big way. They have been major Thoroughbred purchasers, and for their Kentucky home-away-from-home the two bought and redeveloped a major farm near Lexington. Locals speculate that the land alone cost $12 million. The Fustoks also reportedly lavished $2.5 million to build new stables. Says a local lawyer: "It must be the most expensive farm ever. They used bulldozers and completely flattened rolling hills."

Running to form?

There are two things that can make owning a horse a sound investment—breeding and racing. But the economic basis for both is the prospect of winning big at the track. Yearling values, then, should relate to total purses, which in turn are a function of track attendance. With yearling prices soaring, the other graphs in this chart ought to be racing ahead. They aren't. That's why owners may soon feel as if they'd left their wallets at the post.



Name	Year born	Year syndicated	Lifetime winnings[1] ($millions)	Syndication price[2] ($millions)	"S/E" ratio
Spectacular Bid	1976	1980	$2.8	$22.0	7.9
Affirmed	1975	1978	$2.4	$14.4	6.0
Secretariat	1970	1973	$1.3	$6.1	4.7
Buckpasser	1963	1967	$1.5	$4.8	3.2
Nashua	1952	1955	$1.3	$1.3	1.0

[1] Data from *The Blood Horse* [2] Data from *Daily Racing Form.*

So racing is indeed the sport of kings—or at least those sheikhs who can afford to live like kings. But another reason for the escalation in prices has more to do with American marketing techniques than with idle rich across the seas. As inflation pushes more and more people into top-tier brackets, the advantages of any income shelter multiply. And, as thousands of accountants, businessmen, doctors and lawyers are scrambling to reduce their taxable incomes, breeders and financial middlemen are making it easier than ever to get a shot at the winner's circle.

In the good old days—just before World War II—Leslie Combs II latched on to an idea that revolutionized the business. Stallions can usually service at least 40 mares each year, but few breeders can afford that big a stable. Combs, who was just starting Spendthrift Farms, saw a way to spread the risk. He offered to sell the right to breed annually with prize-winning sires.

One of the first horses to go on the block was Alibhai, owned by movie mogul Louis B. Mayer. In a practice that still holds today, syndicator Combs kept an additional 10% of the horse's breeding rights as his fee. Now, there are 40 units in most syndications, and prices have soared: Alibhai was sold initially at $10,000 per share; Robert Entenmann, of the baking clan, recently paid $950,000 for one share in Lyphard, a current market leader. For his investment, he also got two additional "seasons," industry jargon for one-time access to a sire.

The concept of syndicating stallions that are proven winners and selling shares to members of the breeding fraternity, however, has broadened considerably. Spendthrift, for example, recently put up 40 shares in Lord Avie, a three-year-old 1980 Juvenile Champion, at $250,000 each. That's a $10 million bet on a horse that has yet to end his racing career, and an "escalator" clause will raise the share price if Lord Avie wins big this year. "It was a gentleman's game then, and now, it's dog-eat-dog," says Combs. "Today they'll syndicate a yearling—anything—for $1 million."

Another reason the cost of big-name syndications keeps moving up: When a stallion can service more mares than there are syndicate shares, recent Securities & Exchange Commission poli-

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cies restrict the way a syndicate's additional breeding rights can be sold. So, unless a broodmare owner has at least one share in a syndication, he may be out in the cold. "Nowadays, if you don't have a share in a horse, you can hardly get to breed to him," says an industry veteran. "People won't sell their own shares—their own seasons."

It isn't quite like De Beers and diamonds, but access to the best sires is limited. And supply can't go up fast. "You can only get one foal from a mare per year," says Claiborne Farms' Hancock. "There's no way to escalate that."

Selecting a colt or a filly, of course, is like placing a bet. Plenty of "expert" advice is always available. Businessmen usually don't have the time to follow auctions closely, and so-called bloodstock agents are available to guide them. Years ago, there was a small coterie of plugged-in horse fanciers—from Kentucky, Britain or Ireland—who brought respectability to the calling. But now the field is wide open. Says one horseman, even a barber needs a license to cut hair. "But any Tom, Dick or Harry can hang out a sign and become a bloodstock agent."

Racing has always been a social melting pot. Today, mixing with patrician Mellons, Vanderbilts and Whitneys are newcomers who can often profit from rubbing elbows with the rich. Don Tyner, for example, is an Oklahoma City Thoroughbred and quarter horse agent who is vague about his business background. He flies a private jet, secretary in tow, and claims to have syndicated Easy Jet for $30 million. "It was the biggest deal in the history of the world," says Tyner. "We had lawyers out of Detroit." The horse's original owners, meanwhile, still hold 58% of the shares and say they sold most of the rest themselves.

Regardless of how you shop, however, buying a horse isn't a one-time expense. To begin with, if you want your own farm, it won't come cheap. A good Kentucky spread costs $10,000 an acre, more than 5 times the price of prime Iowa farmland. For down-and-out breeders who have no Kentucky estate, however, stable space and feeding is available at $14 a day or $5,000 a year for a mare; stallions cost 40% more. Blacksmiths, vets and vans aren't included, and the 3.8% insurance premium on a mere $30,000 stallion runs to $1,150. If you're into racing, the package could top $20,000 a year—per horse.

That's why opportunities abound today for eager investors who can't afford an entire animal or who want to spread their risks. The industry's money men have moved several levels beyond simple syndication. Look at Georgia's Dogwood Farm Inc., owned by Cothran Campbell, who formerly ran a large regional advertising agency. Since the early Seventies, he has packaged about 50 limited partnerships with tax and operating expense writeoffs. Each deal involved four to seven investors who anted up roughly $40,000 each.

Of 22 partnerships concluded since 1978, by Campbell's count, ten made money, six broke even or better with depreciation and tax breaks taken into account and six lost money. "I've gotten few complaints," Campbell says. "But many people come back into new syndicates we're always forming. They have a good time seeing their horses run, and occasionally win, a stakes race."

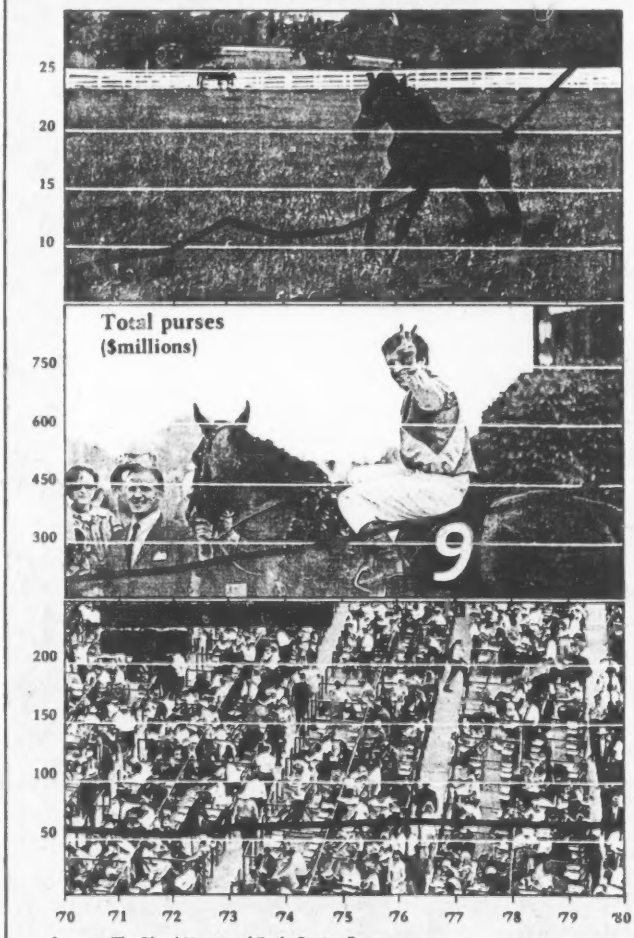
Campbell, however, wins more often. A recent offering circular on a $200,000 deal indicates that his farm will charge a $40,000 management fee in 1981. He then gets 20% of net cash flow that comes after the partners earn back their investment. In addition, if the colts are retired to stud, Campbell also reserves two lifetime breeding rights.

Then there's Louis Guida, whose full-time job is running three Merrill Lynch offices in southern New Jersey. Since 1977 he has put together $25 million worth of fleet-footed Standardbred syndications for scores of clients. His latest coup was wrangling a half-interest in Niatross, Horse of the Year for 1979 and 1980. Guida paid $3.3 million for his stake, and he claims breeders are now beating down his door at a fee of $35,000 per season. With artificial insemination, Niatross can service 158 mares per year—providing half of the annual income of $4.4 million for Guida's investors. "Most syndicators are really interested in breeding," says Guida, who also packages limited partnerships. "I just put together a tax package. What's the difference if it's a horse or a building or an oil well?"

On the other hand, look at a potential $2-a-share investment in International Thoroughbred Breeders, Inc. Track rules effectively bar public corporations from racing; so this new venture, with a registration statement now on file at the Securities & Exchange Commission, plans only to breed, lease and trade. ITB's

"I've got the horse right here"

As racing becomes more a business and less a sport, some four-footed investments lend themselves to Wall Street's brand of analysis. Top stallions, for example, used to bring in syndication fees roughly equal to lifetime earnings at the track. But now these "S/E" ratios are escalating wildly. The buying euphoria smacks of the stock market's Soaring Sixties—with just as much downside risk.



Sources: The Blood Horse *and* Daily Racing Form

president, Kerry Fitzpatrick, before he became a "racing consultant" in 1975, was financial vice president of a real estate investment trust that went bankrupt.

Such mass-marketing is at least one warning signal that the boom in breeding stock won't continue forever. Another may be the fact that borrowing to buy horses is on the rise. Traditionally, lenders that served breeders were limited to horse country. Banks in Kentucky, for example, have up to 13% of their loans in horse-related activities. Now the circle is broadening. "People are getting involved with far larger institutions," says an industry expert. Among the big names that have moved in: Citibank, and Irving Bank Corp.'s Nanuet National Bank.

Fasig-Tipton's Finney has a different wrinkle. In 1977, he and Charles Harris, a Wall Street money manager, formed TECO, a finance company that arranges horse-leasing—complete with residuals. An investor gets a horse for, say, six years at $10,000 a year. That entitles him to purses and breeding rights during the lease period. "We've made several million dollars' worth of these leases, and it's working well," says Finney. "We did a study of the residual value of top-class fillies. They're as good as 727s."

Comparisons with jet planes aside, the dollars-and-cents reason for racing or breeding is to make money. And with some auction prices today soaring to multimillion-dollar levels and top stallions commanding syndication/earnings ratios unheard of in the past, every owner's eye should be firmly focused on the finish line. Strangely, that doesn't seem to be the case. Last year, something happened that made old-timers blink. Fillies often sold for more than colts. Buyers, it seems, are now paying as much for a chance to breed as a chance to race. That, on top of the trend toward stratospheric prices, worries some experts. "We're moving away from the bedrock economic bases that used to dictate the future of this industry," says John Finney. "This is a potential danger."

Dan Lasater, whose stake in the Ponderosa fast-foods chain made him worth $29 million by the time he was 28, is indicative of today's trend. He ran a big-time racing stable that won over $10 million between 1973 and 1976. But now he's into breeding and soon plans to market tax shelters. "I used to have 75 or 80 horses in race training, but now I might have just 10," he explains. "Breeding is the part of the business to be in." Lasater hopes to sell over $7 million worth of horses this year.

Economist David Novick, who has followed the Thoroughbred and Standardbred markets for decades and is a Rand Corp. consultant, thinks the buyers may soon lose their enthusiasm. "It's the 'greater fool theory' at work," he says.

Checking the inventory at Spendthrift Farms

Once a gentleman's game, breeding is now big business—with a bid under way for investment tax credits.

"Because of inflation and tax shelters everyone thinks he can afford a horse today at almost any price. People figure they'll race or breed and sell out to someone else at a profit. I don't know when the bubble will burst, but it surely will."

Odds are that the fall could come soon. With the dollar rising against major foreign currencies, the flood of foreign funds that hit the horse sales could become a trickle overnight. Even as the value of horseflesh soared to giddy highs, other indicators of the industry's health paint a down-at-the-heels picture.

As the chart on page 88 shows, total Thoroughbred purses have been rising—but far slower than the value of the horses that win them. This is true for Standardbreds as well.

Spendthrift founder Leslie Combs II

"Now it's dog eat dog."

At the same time, total attendance at the nation's Thoroughbred tracks is flat, though the number of racing days has steadily grown. Average daily attendance is actually going down; it stands now at under 7,500, *vs.* nearly 9,000 in 1965. The numbers for Standardbreds aren't any better. What's more, the demographics at the $2 window are dismal: Regulars tend to be fiftyish, and there is little evidence that even staging rock concerts is attracting the free-spending younger generation. Where are the racing fans of tomorrow?

In New York, Off-Track Betting makes things worse. Owners now get as high a percentage of the OTB handle as they do of the track handle. Still, OTB has been a mixed blessing: The tracks have lost 12,000 bettors a day since OTB came on in 1971. Worse, their share of the OTB handle is only 1.5%, *vs.* 8.5% of the track handle. In addition, other forms of wagering—like casino gambling, state lotteries, sports betting with bookies—compete with racing. "With nine out of ten owners losing money, and no way to increase purses as fast as inflation, this industry is in for some very tough times," says one Thoroughbred owner.

Short of a drastic realignment of horse prices, is there a way out? General Instrument's experiment with Teletrack, a betting system that now brings racing to a theater in Connecticut, is still aborning. Some optimists also think that cable television may one day be more important to horsemen than bloodlines. There could be nationwide in-home betting, with races broadcast live. Playing the daily double would mean pushing a few buttons; wins and losses would show up on a Visa or Master Card statement. But given the legal restrictions, such innovation hardly seems imminent, even though telephone betting is now being tried in a few places.

Those are the industry's long-term prospects. What about the short term? In November and January, breeders spent heavily on broodmares in foal, and it will be about two years before most have yearlings they can sell. But such confidence may be misplaced. Few people see when a market has reached its peak. Look at gold, diamonds, collectibles.

So sellers could be in for a shock. As with all the other substitutes for real value in these inflationary times, the price of horses won't always go up. John Finney, whose firm has made a fortune running Thoroughbred auctions, is fundamentally optimistic. But there's a nagging worry in the back of his mind. "I have a recurring dream," Finney says. "I'm up on the block, and what I'm selling isn't horses, it's tulips." ■

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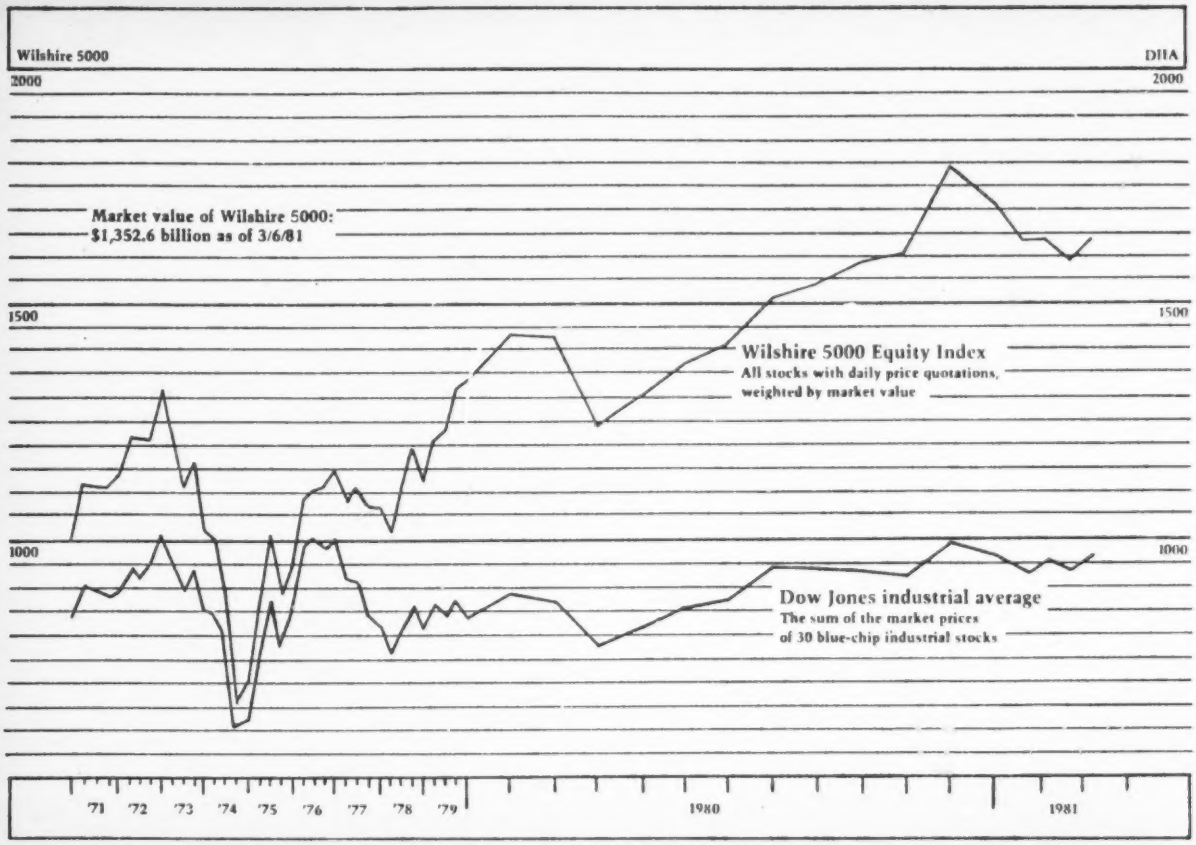
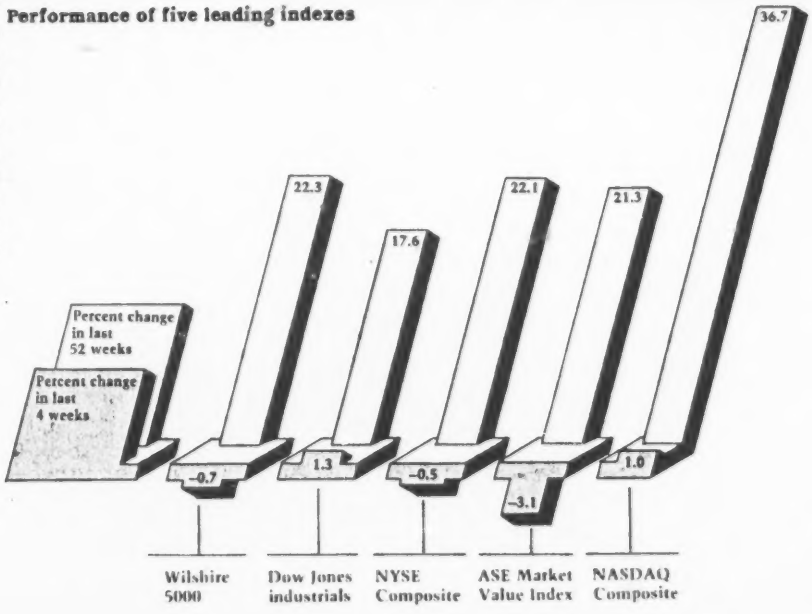
The Forbes/Wilshire 5000 Review



Close-up On The Equity Markets

Crocuses on Wall Street? For the first time in six weeks, some markets at least are posting gains. The Dow leads the pack, with NASDAQ issues close behind. But the NYSE Composite gives a broader picture of what's really happening—and its decline almost matches the dip in the Wilshire 5000. That index, however, also reflected a slump on the ASE, which was hit hard by sell-offs in out-of-style oil stocks.

Performance of five leading indexes



Note: All data for periods ending 3/6/81. Prepared by Wilshire Associates, Santa Monica, Calif.

The key to the relationship between interest rates and the price of precious metals is the real return on alternative investments.

WHAT FUELS SILVER PRICES?

By Stanley W. Angrist

ONE OF THE situations that I am most frequently asked about is the relationship between interest rates and the price of precious metals. The confusion exists because at times rising interest rates are viewed as bullish and at other times as bearish. Shearson Loeb Rhoades, Inc. has recently taken a look at this question, and I think the results are significant.

The key to the relationship between interest rates and the price of precious metals is the real rate of return—that is, the nominal rate less inflation on alternative investments.

It is widely accepted that precious metals are generally considered to be inflation hedges. When the real rate of return from investment-bearing instruments is negative, the attractiveness of owning precious metals is increased. Investors are loath to tie up their funds in Treasury bills, bonds, certificates of deposit and the like if they cannot at least keep pace with the general level of price rises in the economy. However, as nominal interest rates rise above the inflation rate, investors tend to liquidate their precious-metal commitments in favor of financial investments.

The chart at right illustrates this point. It shows the real rate of return on Treasury bonds less the percentage change in the Consumer Price Index for the past 11 years. Also plotted is the change in spot silver prices; both curves are plotted on a quarterly basis. During the early 1970s the real rate of return on financial investments was positive and silver prices were relatively stable. In the highly inflationary 1973-74 period, the real rate of return on T-bonds became negative, causing investors to turn to precious-metal investments. By early 1975 the real rate of return had again turned positive for financial instruments, and silver prices stabilized. The scenario was replayed again in the 1979-80 time period, with the added complications of the Hunt brothers' dealings.

Thus, the relationship between precious-metal prices and interest rates seems to hinge on real rates of return rather than rising or falling interest rates. Silver will be an interesting commodity to watch this year—even if you don't care to trade it. Handy & Harman's 1980 silver supply/demand balance for the Western world noted the following items:

1) Total consumption fell 20% last year. While all major countries showed declines, the largest percentage drop occurred in the U.S.

2) The primary deficit—that is, the total usage less mine output—was reported to be 101 million ounces. This is about half the annual average deficit for the past decade.

3) Secondary sources, which are mostly scrap recovery, coin meltings and exports from India, swelled to 224 million troy ounces—the largest figure since 1969. High prices worked their magic once again.

4) The "change in private stocks" *increased* 123 million ounces. This is the supply surplus that must be absorbed by industry or investors. With the exception of last year and the depressed year of 1976, each of the past ten years registered a supply deficit for silver.

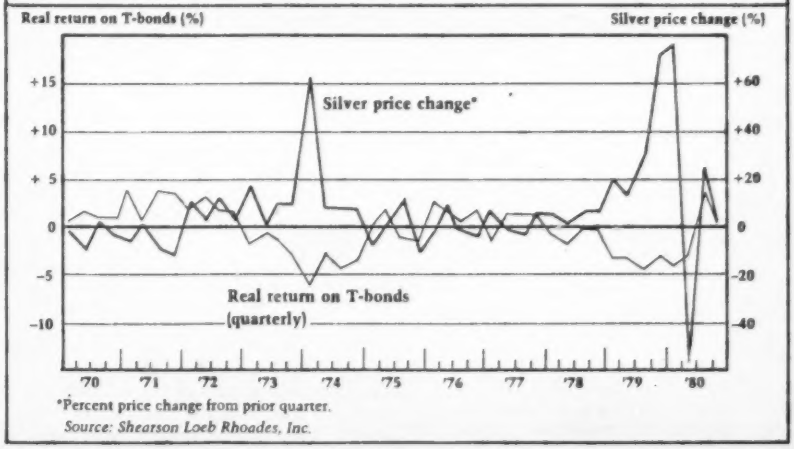
Shearson forecasts a silver surplus for 1981. Even if consumption expands somewhat, secondary silver sources and mine production should be more than sufficient to meet demand. Thus, inflationary expectations will decline somewhat and financial instruments will show real rates of return. Of course, any unexpected shock to the world, such as a U.S.S.R. move into Poland or a cutoff in Middle Eastern oil would alter the outlook for silver.

I would consider selling the June silver contract above $15.50 per ounce from my entry point and look for a move down to around $11.50 per ounce. If you do this trade on the Chicago Board of Trade, where the contract is 5,000 troy ounces, margin would be $6,000, the profit potential $20,000 and the risk $2,500. If you do this trade on the Mid-America Exchange (1,000-troy-ounce silver contracts) the margin would be $1,800, the profit potential $4,000 and the risk $500 per contract. ■

Stanley W. Angrist is a professor at Carnegie-Mellon University and the author of Sensible Speculating in Commodities.

It's the real return that counts

The rate of return on a silver investment moves inversely to the real rate of return—after inflation—on T-bonds. When real returns on financial instruments turn negative, silver will fly.



*Percent price change from prior quarter.

Source: Shearson Loeb Rhoades, Inc.

With a new Administration and emerging technologies, the boom in new issues of common stock may have just begun.

New issues pick up steam

Statistical Spotlight

By Steve Kichen

WITHIN THE PAST 18 months the recovery of the new-issues market has been gaining momentum. The probusiness attitude of the new Administration is likely to encourage increased new-issue underwriting, particularly in such rapidly evolving technologies as energy, biomedical science, genetic engineering, data processing and electronics.

Nothing highlights the growing public interest in new issues more than the recent offering of Genentech in October 1980. In its first day of public trading this stock went from its offering price of 35 to a very short-lived high of 89, even though Genentech is earning only a few pennies per share—all from research contracts.

Several drug and chemical firms and major universities are also actively involved in genetic engineering research. One of them is Cetus, which recently went public with an offering more than 3 times larger than Genentech's. And early in 1981 Biotech Capital, a venture capital firm specializing in biosciences, had a $13.2 million offering that sold out quickly.

The new-issue game is not for the faint of heart. If you had bought into International Picture Show last August, for example, you would now be left with less than 60% of your investment. There's no substitute for a close reading of the offering prospectus.

In the table below is a select group of first-time common stock offerings from 1979 to the present. To screen out some of the smallest and most speculative ventures we eliminated offerings priced at less than $1 per share, or where fewer than 1 million shares were being offered or where the initial market value fell below $3 million. New issues sold as units—with warrants or other "sweeteners"—were also eliminated because they are inherently more speculative. Even so, our list contains plenty of potentially risky investments. Since most of these companies are starting from a very small base their financial figures are, of course, often not representative of the company's long-term potential.

To date, most of the firms on our list have shown positive price appreciation. The real winners: Amber Resources, up 525%; Griffin Petroleum, up 519%; and Lewis Energy, up 413%.

Norman G. Fosback, editor of the *New Issues* newsletter, gave us a list of some of his favorite forthcoming or recently released issues: Infotron Systems, a manufacturer of computer interconnect devices; Cetus; Durolith, a manufacturer of electronic equipment control panels; SCI, a computer software company specializing in programs for bank trust departments; and Sterling Pipe & Supply.

Debutantes

Here are the most presentable new issues of the past two years. To exclude the more speculative offerings we insisted on an offering price of at least $1, at least 1 million shares in the offering and an initial market value of $3 million.

Company/principal business	Date of offering	Number of shares offered (000)	Offering price	Recent price	% change in price	Revenues latest fiscal year (000)	Earnings per share latest 12 months	Price/ earnings ratio
Amber Resources/oil and gas	1/10/79	4,000	$ 1.00	$ 6.25	525%	$ 456[1]	nil	NM
Teleco Oilfield Services/oilfield services	4/17/79	1,000	11.25	42.50	278	14,499	$0.67	63.4
Brae/railcar leasing	5/4/79	1,000	19.00	10.50	–45	30,168	1.54	6.8
American Vision Ctrs/retail vision stores	5/29/79	2,300	1.50	1.63	8	3,266	0.06	27.1
Greate Bay Casino/hotel and casino	5/31/79	1,029	25.00	12.75	–49	908	d1.75	d
Nicklos Oil & Gas/oil and gas	6/27/79	1,250	10.67	26.50	148	31,790	1.00	26.5
Xplor Energy/acquires mineral lease acreage	9/14/79	6,400	1.25	1.19	–5	0	0.01[1]	NM
TPEX Exploration/oil and gas	10/31/79	3,000	1.00	1.75	75	893	nil	NM
Lewis Energy/oil and gas	11/9/79	6,000	1.00	5.13	413	nil	d0.17	d
Land of Lincoln S&L/savings and loans	12/4/79	1,047	7.50	6.13	18	34,698	0.76	8.1
Moxa Energy/oil and gas royalties	12/20/79	1,000	7.38	11.50	56	950	d0.02	d
Encore Industries/slot machines	1/18/80	1,000	5.00	3.75	–25	nil[1]	d0.40	d
Naples Federal S&L Assn/savings and loans	2/14/80	1,167	14.13	16.38	16	51,014	2.31	7.1
Blocker Energy/oil and gas	2/28/80	1,250	14.00	26.50	89	76,722	1.20	22
Energy Methods/oil and gas	3/21/80	2,525	2.25	5.25	133	207	d0.02	d

[1]Interest income only. [2]Figure covers a period of less than 12 months. [3]Company estimate. NA: not available. nil: insignificant. d: negative. NM: not meaningful.

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Debutantes

Company/principal business	Date of offering	Number of shares offered (000)	Offering price	Recent price	% change in price	Revenues latest fiscal year (000)	Earnings per share latest 12 months	Price/ earnings ratio
Freedom S&L Assn/savings and loans	5/13/80	2,389	$14.75	$12.00	–19%	$103,436	$ 0.62	16.7
Meta Systems/electronics	5/14/80	1,600	2.00	2.75	38	99[2]	0.35[2]	—
Storm King Mines/leasing, explor coal prop	5/19/80	3,500	1.00	2.88	188	nil	d0.09	d
Nitron/semiconductors	5/29/80	1,000	5.00	11.50	130	8,283	d0.40	d
Rocky Mountain Explor/oil and gas	6/4/80	3,000	1.00	2.63	163	NA	nil[2]	—
Intl Capital Equip Ltd/equipment leasing	6/12/80	1,500	5.50	9.50	73	302	d0.66	d
City Federal S&L Assn/savings and loans	6/18/80	2,396	11.00	9.00	–18	219,739	1.03	8.7
Andrew Corp/antennas, transmission lines	6/19/80	1,100	18.50	31.00	68	89,294	1.71	18.1
Empire Oil & Gas/oil and gas drilling	6/19/80	8,000	1.00	2.88	188	5,931	nil	NM
Gen Nutrition/retail health fds & cosmetics	6/19/80	1,000	15.00	27.50	83	195,085	1.45	19.0
Magnuson Computer Sys/computer equipment	6/25/80	1,000	20.00	29.50	48	10,674	0.43	68.6
Vac-Tec Systems/vacuum coating systems	7/1/80	3,000	1.00	2.13	113	1,130	d0.05	d
SPM Group/sells waste conversion equip	7/9/80	3,000	1.00	1.00	0	1,900[3]	d0.02	d
General Defense/manufactures tank ordnance	7/11/80	1,000	7.33	16.75	129	55,797	1.32	12.7
Aztec Resources/oil and gas	7/14/80	3,000	1.00	2.13	113	83[1, 2]	nil	—
Applicon/interactive graphics systems	7/22/80	1,000	22.00	31.75	44	50,776	0.92	34.5
Fossil Oil & Gas/oil and gas	7/22/80	6,000	1.00	3.25	225	nil[2]	nil[2]	—
Calvin Exploration/oil and gas	8/12/80	2,000	2.50	4.63	85	240	0.06	NM
Standard-Bred Pacers & Trotters/horses	8/13/80	1,000	3.00	3.63	21	31[1, 2]	nil[2]	—
Intl Picture Show/distr motion pictures	8/18/80	2,500	2.00	1.19	–41	3,306	0.07	17.0
ENEX Resources/oil and gas	8/19/80	3,000	1.00	4.63	363	43[1, 2]	d0.01[2]	—
Tyrex Oil/oil and gas	8/21/80	5,000	1.00	2.06	106	232[2]	d0.01[2]	d
United Petrosearch/oil and gas	8/23/79	3,700	1.00	2.06	106	957	d0.23	d
Griffin Petroleum/oil and gas	8/28/80	6,000	1.00	6.19	519	2,922	d0.03	d
Oklahoma Energies/oil and gas	8/29/80	2,500	2.00	5.63	181	155	d0.04	d
Rockwell Drilling/oil and gas drilling	9/5/80	3,000	1.00	1.88	88	1,612	0.05	31.3
Energy Assets Intl/fin for oil ind	9/9/80	3,000	1.00	1.25	25	99[1, 2]	d0.03[2]	d
Dakota Resources/oil and gas	9/15/80	3,500	1.00	2.88	188	nil	NA	—
Satellite TV & Assoc Resources/pay-TV sys	9/18/80	1,000	5.00	14.00	180	415	d1.92	d
Eagle Exploration/oil and gas	9/24/80	1,000	5.00	8.50	70	342[2]	0.14[2]	—
Genentech/genetic engineering	10/14/80	1,000	35.00	41.00	17	8,962	0.03	NM
Shannon Oil & Gas/oil and gas; oilfield svs	10/21/80	5,000	1.00	4.13	313	780[2]	d0.08[2]	d
Xicor/electronics	10/28/80	1,800	6.50	7.75	19	21[1]	d0.26	d
Micropin/pinball machines	10/30/80	1,500	3.00	2.88	–4	nil	d0.31[2]	d
Bogert Oil/oil and gas	10/31/80	8,720	1.00	1.88	88	7,022[2]	d0.01[2]	—
People Express Airlines/airline	11/6/80	3,000	8.50	8.50	0	6[1]	d0.15[2]	d
American Public Energy/oil and gas	11/12/80	1,500	7.00	7.00	0	2,327	0.30	23.3
Steiger Tractor/manufactures tractors	11/13/80	1,000	9.75	11.88	22	121	2.17	5.5
NIKE/footwear	12/2/80	2,377	22.00	19.75	–10	269,775	1.21	16.3
Dreco Energy Services Ltd/drilling, oilfield svs	12/3/80	1,500	17.50	23.25	33	91,138	1.19	21.3
Woodbine Petroleum/oil and gas	12/3/80	5,000	1.00	2.06	106	15	nil	—
C3/computer equipment	12/16/80	1,300	32.00	31.50	–2	13,984	1.21	26.0
Deca Energy/oil and gas	12/17/80	1,250	7.00	10.50	50	152	d0.04[2]	—
Drillers Inc/contract drilling	12/17/80	1,000	19.25	17.50	–9	18,758	1.13	15.5
Bellwether Exploration/oil and gas	12/18/80	1,000	5.00	4.38	–13	1,477	d0.02	d
Cytox/biochemical products	12/18/80	1,500	2.00	3.00	50	1,186	0.03	NM
Apple Computer/microcomputers	12/22/80	4,600	22.00	26.00	18	117,126	0.32	NM
Delmed/health care products	12/23/80	1,500	5.00	4.50	–10	6,700	d0.58	d
Matrix Science/electrical equipment	1/8/81	1,000	16.00	20.13	26	26,716	1.01	19.9
Information Retrieval Sys/computer equip	1/9/81	1,800	2.00	2.00	0	4,616	NA	—
Biotech Capital/venture cap for bioscience	1/23/81	1,760	7.50	8.75	17	NA	NA	—
Dysan/manufactures computer discs	1/27/81	1,100	13.50	17.00	26	62,871	0.42	40.5
Silicon Systems/semiconductors	1/29/81	1,150	11.00	9.75	–11	10,500	0.20	48.8
Enterprise Radio/sports radio network	2/3/81	1,000	5.00	4.75	–5	NA	d0.90[2]	—
Tandon/computer equipment	2/11/81	1,975	16.00	16.75	5	22,761	0.24	69.8
Micros Systems/computer equipment	2/12/81	2,000	2.50	2.88	15	6,735	0.10	28.8
FundsNet/electronic funds transfer	2/18/81	2,000	6.50	6.38	–2	3,217	0.07	NM
Cetus/genetic engineering	3/6/81	5,225	23.00	21.00	–9	9,622	0.04	NM

[1]Interest income only. [2]Figure covers a period of less than 12 months. [3]Company estimate. NA: not available. nil: insignificant. d: negative. NM: not meaningful.

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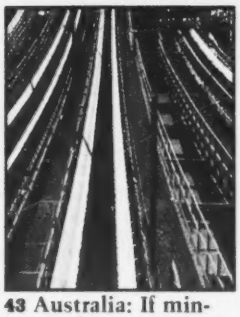

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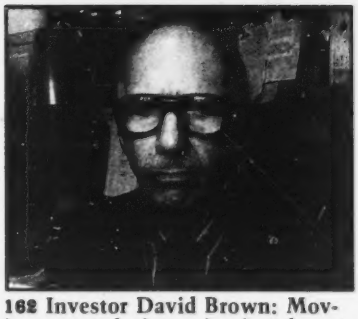

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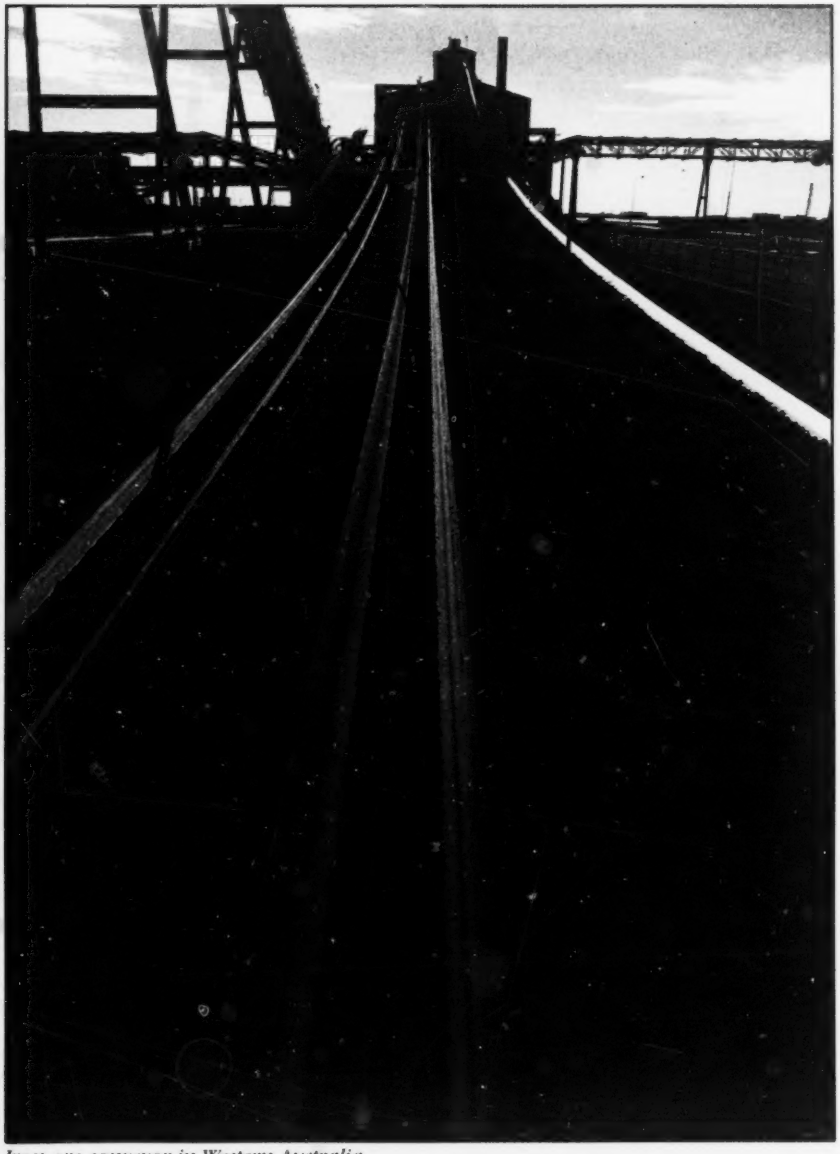
Why are foreign investors pouring billions into Australian natural resources? Because if mining is the investment opportunity of the Eighties, Australia is where it's at.

Australia's soaring minerals boom



Iron ore conveyor in Western Australia
Best of all, elbow room to exploit their natural resources.

By James W. Michaels

WE CANNOT VOUCH for its authenticity, but a very distinguished Australian businessman recently told us this story:

Although he was christened John Malcolm Fraser, nobody ever calls Australia's Prime Minister anything but Malcolm Fraser; the "John" has long ago atrophied. But when "Big Mal," as the Aussie press calls him, visited the White House a few years back, Jimmy Carter greeted him with, "How are you, John?" It seems Carter's staff work in this case was limited to a quick perusal of the *International Who's Who*.

Not many leading U.S. businessmen would have made the same mistake. For literally hundreds of them, the 7,300-mile commute to Down Under has become an exhaustingly familiar one and Big Mal a refreshing kind of politician. In fact, these businessmen—usually in partnership with local capital—are pouring so many billions into Australian natural resource development that they dwarf the takeover bids by oil companies in the U.S. for mining companies like AMAX and Kennecott. In a resource-short future, an Australian coal, copper or uranium mine may be a priceless asset.

You need a few simple facts about Australia to understand why:

Imagine a United States with just 10 million people living on a narrow strip along the East Coast from Boston to Florida, a million in the South around New Orleans and a scant million more on the West Coast. There are also outposts in St. Louis and Chicago. The rest of the country is almost empty. That describes Australia. A continent almost as big as the U.S., it has only one-sixteenth the population—just 14 million people.

The reasons that kept most of Australia empty and unexploited were valid in the 19th century and well into the 20th: Virtually the whole center is barren, arid, bleak. The Outback is still as foreboding for habitation, but the reasons for its remaining unexploited are no longer valid. Under that arid bleakness lies a treasure trove of minerals, within reach of an advanced, educated populace willing to work for the high wages offered them.

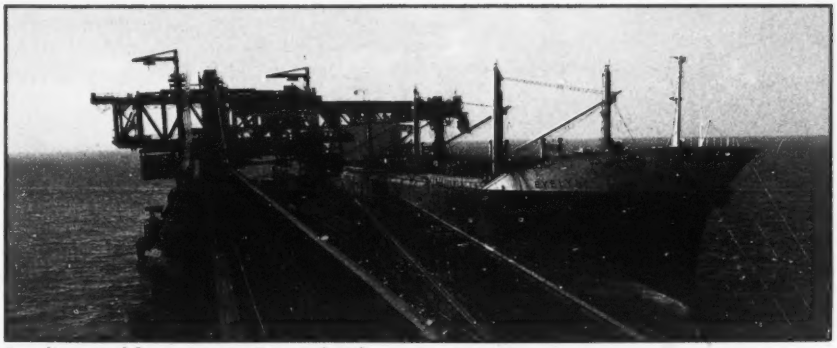
Numbers can be boring, so a few brush strokes will suffice. Under this reddish-brown moonscape lie a fifth of the world's uranium, estimated coal reserves sufficient to meet current world demand for 56 years and more iron ore than Japan could use for the next 1,000 years.

Best of all, Australia has the elbow-room to exploit its wealth. Sir Gordon Jenkins is a thoughtful man who heads CSR Ltd., one of Australia's new billion-dollar natural resource companies. Says he: "Lots of countries have minerals but Australia has the land, the water, the environment, to develop them." He

means that in those wide-open spaces, pollution is less of a problem than it is in the crowded U.S. or Western Europe. The bulldozers that strip the soil to bare the riches beneath are hardly destroying natural beauty. They need disturb no one. Australia can exploit her mineral wealth and still have recreational space and unspoiled landscapes to spare.

All this has not been lost on the world's investors either. Since 1974 huge amounts of foreign capital have flooded into Australia, growing from under $500 million in 1974 to $3.6 billion last year.

Oil companies pay huge premiums over market value to acquire mining companies. Seagram offered $2 billion for St. Joe Minerals, a staggering 17 times earnings. In mining and minerals processing, however, these are no longer extravagant sums. In the last five years alone, U.S. corporate, institutional and private investors have poured $4 billion into Australia. It's no secret General Electric's $2 billion takeover of Utah Mining—until recently the biggest such deal in history—was motivated in large part by Utah's huge holdings of Australian coal. Had it not been for its bold and pioneering backing of the Hammersley iron ore project in Western Australia in the mid-Sixties, Kaiser Steel might today be bankrupt; its solvency owes much to the sell-off, at a hugh profit, of its Hammersley holdings.



Loading coal for export in Queensland
In a natural-resource future, almost priceless assets.

Consider a few of the numbers involved in the Australian mining boom. Close to $40 billion is already committed to natural resource development in the first half of the 1980s. The biggest single piece of this, about $10 billion, is earmarked for coal, considerably more than will be spent in the U.S. on coal development in the next four years.

Unlike the situation in many other countries, energy isn't a problem in developing those raw materials. Australia produces 60% of its oil and has so much coal and uranium that, overall, it is likely to become a net energy exporter.

How much coal can 14 million people use? How much aluminum? Not a great deal. But Japan is hungry for resources and so is the rest of the world. Australia already exports huge amounts of coal to Japan and alumina to the U.S.

Do Australians resent all this foreign presence, all this churning up of the Outback? To a degree, inevitably, but the blow is greatly softened by the increasing partnership of local capital under guidelines that suggest at least 50% of the equity in most new natural resource projects be in Australian hands.

These guidelines are not the barrier they might be in less-developed countries: Australia is rich now and has a high savings rate. There is a growing—however slowly—pool of skilled Australian management personnel. The growth of the local capital markets has given Australians a new confidence that they can deal with foreign investment as equals. Turnover on the Sydney and Melbourne stock exchanges, which dragged along at maybe $6 million a day a half decade ago, now often hits $60 million a day. In February, Broken Hill Proprietary, Australia's huge oil, steel and iron conglomerate, successfully floated a rights offering that was huge even by U.S. standards—nearly $400 million.

Timid and undercapitalized until a few years ago, Australia's businesses and businessmen are now flexing their muscles. The mining giant Conzinc Riotinto of Australia (CRA) is superbly managed by any standard and so are many of the other mining conglomerates. Australian businessmen are becoming a factor on the international scene. Newspaper mogul Rupert Murdoch is the best known, but he is not alone. Sir Peter Abeles, the dynamic boss of Australia's TNT transport company, has made acquisitions in the U.S. and so has Australia's exceedingly well managed building and real estate outfit, Lend-Lease, which is involved in a California land development.

The Australian stock market turned weak early this year: The decline in the price of gold hurt. So did the attraction for international money of high interest rates in the U.S. Viewed in perspective, however, this was only an interruption in a powerful bull market that carried the Sydney All Ordinaries composite stock index from 260 in early 1976 to as high as 776 in 1980. British investors, long active on the Australian scene, helped fuel the boom. Americans, relative newcomers as portfolio investors here, came in small but increasing numbers. There was also Arab money, and Asian money of all kinds.

Already some of the local companies have become American-size. Broken Hill Proprietary, traded in the U.S. through American Depository Receipts, has 170,000 stockholders and a market capitalization of nearly $5 billion. Sir Roderick Carnegie's CRA is well over $2 billion. There are already eight Australian companies with a market value of $1 billion or better.

And yet, less than a decade ago, Australia came close to blowing the whole thing. After 21 years out of power the Labor Party won in 1972, led by Gough Whitlam, a pretentious man utterly ignorant of economics. Whitlam announced he was going to build a new Australia and make business pay for it. He was going to stop the "despoliation" of Australia's hinterland by foreign investors. Australians were going to "buy back the farm." After boosting government outlays by nearly half in one wild spendthrift year, pushing the inflation rate to 17%, almost shutting down the mineral boom and playing footsie with a shady character who promised an international loan of $4 billion, Whitlam was booted into well-deserved obscurity in 1975. A relatively conservative government came in, headed by Malcolm Fraser and has remained in power through three elections.

Can Australia blow it again? It's not impossible. The election results are usually fairly close and the Labor Party has a radical fringe dedicated to banning uranium development and ousting foreign investors. Many of the intellectuals openly yearn for the days of Gough Whitlam.

Out of power, the Labor Party talks moderation. The Labor Premier of New South Wales, an attractive politician named Neville Wran, is working hard to bring billions of dollars' worth of aluminum plants to depressed areas of his state. Says Wran: "Talk about government ownership is a one-way ticket to political oblivion in this country." Yet there is no doubt that a Labor government would reverse the present trend toward less government spending.

Even Bob Hawke, Labor's brilliant and popular shadow minister of industrial relations in parliament, speaks of spending much more heavily on foreign aid as a means of playing a bigger role in Southeast Asia. There can be no doubt that a Labor government would pour more money into the public sector. This could result in either higher inflation or increased taxes, or both, in a nation where the top tax bracket is 60% for that gross income above $34,478 (Australian). Higher inflation and higher taxes both

would spell trouble for the mining boom.

Nevertheless, the present middle-of-the-road government is by no means certain to stay in power. Painfully, and using measures that are not always popular, it has cut taxes, reduced government spending and brought inflation down to relatively low levels. But thanks to the mining boom, there are serious shortages of skilled labor, and the danger of speeded-up wage inflation hangs heavy. In some remote mining areas, skilled workers make close to $50,000 (Australian) a year. If that kind of wage inflation spills into the more populated areas, look out! But how do you persuade people to exercise wage restraint when their country is in the grip of a great mining boom?

Another drawback to the development of all this wealth is the Australian character itself. "Arrogant" is the all-purpose word in Australia for any person who gets ahead too fast or distinguishes himself or herself from the crowd—a legacy perhaps of Australia's convict past and its long-vanished frontier traditions. The term is applied equally to Prime Minister Fraser and some of his prospective replacements, including Laborite Bob Hawke, a onetime Rhodes scholar.

Australians themselves speak of the "great Australian sloth." This is not to say that Australians are lazy, but life is relatively easy here. The beaches are close to the cities and uncrowded. The climate is mild along the coasts. Keeping up with the Joneses American-style has never really caught on. The work ethic, if not weak, is hardly urgent. The Ameri-

Down under, how to buy in

Says Don Gimbel, Kidder, Peabody's vice president covering Australia and New Zealand: "I spend most of my time telling people not to buy blindly in Australia and to stay with quality." Below are listed some of Australia's largest enterprises. Because they are regarded as growth stocks, the natural resource companies command the highest P/E ratios; there, as here, banks rate the lowest. Nine of Australia's ten largest companies are in natural resources.

Besides Kidder, several other U.S. brokers deal in Australian securities, among them Salomon Brothers and Merrill Lynch. Your Aussie stock is kept in a custodian account in an Australian bank, but, if you want to take physical delivery, you must go by way of American Depository Receipts, which carry slight fees upon purchase, sale and dividend disbursement. Australia levies a 15% withholding tax on dividends, but that can be offset against U.S. taxes. Some 27 Australian companies traded on the Sydney exchange can be followed in the *New York Times*.

One of the best sources for information is the Australian Consulate-General library, 636 Fifth Avenue, New York, N.Y. 10111, which carries background information on leading Australian companies. Other Australian government offices are located in Washington, San Francisco, Chicago, Los Angeles and Honolulu.—Jeff Blyskal

Rank	Company/business	Market capital (mil)*	Recent stock price*	1980-81 high-low*	Market price/book value	Price/ earnings ratio	Dividend yield %
20 largest natural resource companies in Australia							
1	•**Broken Hill Proprietary** iron, steel, oil	$4,715	$15.97	$20.59–$13.34	1.2	7.8	3.0%
2	**Conzinc Riotinto of Australia**/mining	2,195	5.38	8.31–5.09	1.4	10.8	4.1
3	•**MIM Holdings**/mining	2,095	4.68	6.97–3.51	3.0	12.8	5.0
4	•**CSR**/mining, chemicals, sugar	1,974	7.61	9.36–5.09	1.7	15.4	2.8
5	•**Western Mining Corp**/mining	1,419	5.52	7.96–4.10	3.5	21.3	3.0
6	**Comalco**/aluminum	1,227	6.55	7.28–4.62	1.5	13.9	2.6
7	•**Woodside Petroleum**/oil and gas	1,219	3.04	4.56–1.99	NA	NM	0.0
8	•**Santos**/oil and gas	1,049	20.48	22.58–6.67	NA	91.0	0.6
9	**Energy Resources Australia**/uranium	876	2.15	3.51–2.11	NA	NM	0.0
10	**Hamersley Holdings**/iron ore	853	3.51	5.50–3.45	2.5	12.2	5.3
11	**Bougainville Copper**/copper	734	1.83	3.66–1.70	1.6	6.7	13.7
12	•**Southern Pacific Petroleum**/oil and gas	572	2.43	5.03–1.23	NA	NM	0.0
13	**North Broken Hill**/mining, oil, gas	538	3.69	5.21–3.22	1.5	9.4	5.7
14	•**Peko Wallsend**/coal and minerals	522	9.10	14.98–7.72	1.9	9.5	2.9
15	•**Central Pacific Minerals**/oil & min prspctng	495	5.97	13.69–3.16	NA	NM	0.0
16	•**Boral**/quarrying	485	4.10	4.21–2.08	1.3	11.8	3.6
17	**EZ Industries**/lead, zinc	479	6.32	9.95–5.73	2.0	11.1	7.4
18	**Coal and Allied**/coal	427	15.21	17.08–8.31	3.8	200.6	1.5
19	**Ampol Petroleum**/oil and gas	417	2.04	2.41–1.11	1.5	11.6	4.3
20	**BH South**/copper	339	6.08	6.44–4.68	1.3	47.6	1.5
10 largest Australian companies in manufacturing and retailing							
1	•**GJ Coles**/retailing	580	2.88	2.93–1.92	1.6	9.3	6.1
2	**ICI**/chemical products	484	2.61	3.42–2.12	0.8	6.2	6.7
3	**Pioneer Concrete**/quarry products	478	2.69	3.10–1.85	1.9	13.0	4.3
4	•**Australian Paper Mfrs**/paper products	424	2.63	2.71–1.70	1.2	7.5	6.7
5	•**Meyer Emporium**/retailing	387	2.08	2.11–1.58	0.7	9.8	5.9
6	**Woolworths**/retailing	334	2.29	2.32–1.65	1.3	7.7	6.6
7	**Carlton United Breweries**/brewing	325	2.63	2.71–1.88	1.2	9.9	6.2
8	**James Hardie**/building materials	311	4.75	5.09–3.03	0.8	9.2	4.9
9	**Castlemaine Tooheys**/brewing	276	4.10	4.45–3.33	1.0	7.9	5.7
10	**Dunlop Olympic**/tires and rubber	253	1.31	1.64–0.82	1.0	6.2	7.1
5 largest Australian banks							
1	•**ANZ Bank Group**	913	5.27	5.32–3.84	0.8	5.7	5.3
2	•**Bank of New South Wales**	841	3.57	4.10–3.16	0.8	5.8	5.9
3	•**National Bank**	524	3.51	3.51–2.71	0.9	5.9	6.0
4	•**Commercial Bank of Australia**	244	3.63	3.15–2.48	0.8	5.4	6.5
5	•**Commercial Banking Co of Sydney**	215	3.98	3.55–2.40	0.9	4.8	6.5

Note: All data as of Feb. 28, 1981. •Available in American Depository Receipts. *U.S. dollars. NA Not available. NM Not meaningful.
Source: The *Australian* National Times.

can term is "laid back." This helps contribute to a certain irresponsibility when it comes to strikes. "Unfortunately," says an Australian businessman, "the strike tends to be the first weapon labor uses here, not the last as in the U.S. and elsewhere." Accustomed to an all-encompassing welfare state, the electorate tends to resent the cutbacks in social spending the Fraser government has made. Like all industrial nations, Australia suffers from growing unemployment among the young for which the government in power tends to get blamed. The trouble is that the mining and processing of raw materials provides jobs for skilled workers, not for untrained kids.

Australia, in short, has problems, and if they may not look like problems to people in poorer countries, they still present a tough challenge to Australia's businessmen and politicians. "The big question here," concedes Industrial Relations Minister and former Foreign Minister Andrew Peacock, "is: Will any government be able to handle the effects of the resources boom?"

On the positive side, the Australian people are becoming increasingly middle class and increasingly skeptical of political rhetoric. The opposition, or at least its moderate wing, understands that Australia needs foreign investment if it is to have those two cars in every garage. A Sydney taxi driver, an emigrant from union-cursed Britain, says, "The family comes first with the Australian workingman, not his union. He wants to know what's in the pay packet, not what it is the union leaders want." Andrew Peacock points out that the consequences of Trudeau's antibusiness policies in Canada have not been lost on the Australians; Trudeau has paid a fearful price in a capital flight from Canada *(see p. 35)* that can only result in growing unemployment.

So what should an investor make of all this? The bottom line for American businessmen and investors is that Australia is too good an opportunity to pass by. But remember, Australia is not the U.S.

Sir Arvi Parbo, one of Australia's leading industrialists, brings an unusual perspective to the scene. A native of Estonia, he came to Australia as a refugee after World War II and worked up from the bottom to the chairmanship of Western Mining Corp., a front-runner in the minerals boom. We asked Parbo what advice he had for American businessmen and investors. He replied: "Tell them not to be overoptimistic and above all not be in too much of a hurry. We can't rush headlong into mineral development. We have to persuade the man in the street that there's something in it for him."

Sound advice. But is the man in the street getting the message? We put *that* question to Prime Minister Malcolm Fraser in the interview that follows. ■

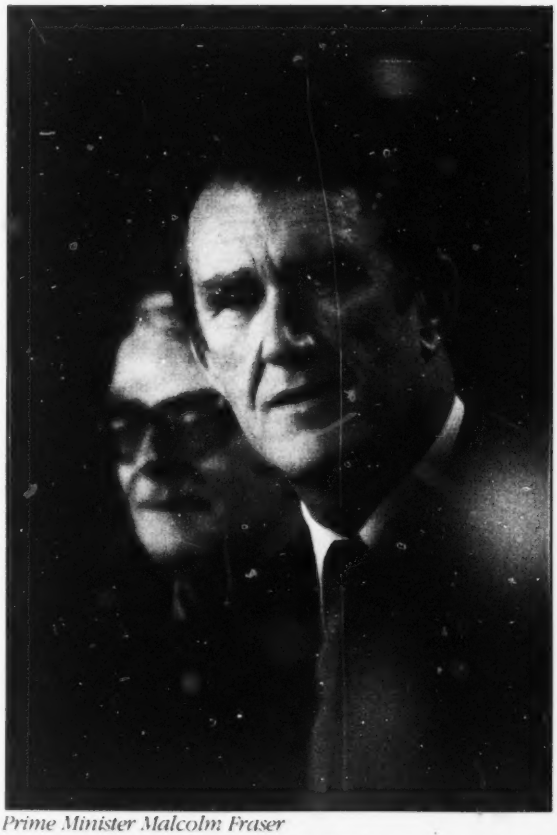
How Australia cut taxes, reduced both inflation and the federal deficit and reopened its doors to foreign investment.

An interview with Australian Prime Minister Fraser

THE LEADER OF THE conservative Liberal-National Country Party coalition is Prime Minister Malcolm Fraser, 50. Raised on a sheep ranch, he was educated at Oxford University and so combines a farmer's practicality with an intellectual's broader vision.

Yet he has problems. Tall, distinguished-looking but aloof, almost shy, Fraser has none of the "matey-ness" that Australians profess to find attractive. He walks a difficult line in espousing free-enterprise policies in a nation that has traditionally been suspicious of wealth and accustomed to the welfare state.

Fraser was interviewed in Canberra recently by FORBES President Malcolm S. Forbes Jr. and Editor James W. Michaels. Highlights of the interview follow:



Prime Minister Malcolm Fraser
"My opponents are damned lucky I'm not popular."

FORBES: Your party is committed to free-enterprise policies, but the Liberals may not be in power forever. What can you say to foreign investors who were burned once before when your predecessor Labor government turned hostile to foreign investment? It was the same old story: Investment comes in under one set of rules and then finds that the rules are abruptly changed unilaterally.

Fraser: Remember we have had three of the largest majorities in the history of Australia, one after the other. Australians have learned a great deal from those years [of hostility toward foreign investment under Labor]. Our people would not have any of those policies again. They were deceived before; they were not warned that government expenditures would go up 46% in one year. It was madness compounded on madness. There is no way our people would go back to that.

Remember that we went into the 1980 election with a pretty courageous oil-pricing policy in a country where distances are large—where one or two mo-

The banks are headed this year for loan losses in amounts that haven't been seen since 1975-76. Why, then, are bank stocks doing so well?

Risk-free banking? There's no such thing

By Ben Weberman

TO JUDGE BY THEIR popularity on Wall Street lately, you'd think the banks didn't have a worry in the world. Big and small, money center and regional, bank stocks have been showing strength not seen in years: both Citicorp and Continental Illinois stocks have increased by almost 20% since Nov. 16, 1980; regionals like North Carolina National Bank have jumped more than 23% and Valley National Bank is up 16% in the same period. S&P's average of bank stocks is up 17% since November, *vs.* a 3.5% loss for the S&P's 500.

It's a measure of how deep investors' distrust of bank stocks had been since the banks' heavy writeoffs on real estate loans in 1975 and 1976 that, even now, the S&P's bank stocks are selling at little more than 5 times their estimated 1981 earnings, *vs.* more than 8 times for the S&P's 500 stocks. So, despite their recent strength, bank stocks continue to look good to a number of influential analysts. Says Charles H. Lott, president and director of research of Keefe, Bruyette & Woods, the bank stock dealers: "Bank stocks are still dirt cheap."

So they may be if—and it's a very big if—1981 earnings meet present expectations. There is good reason to doubt that they will. Last month A.W. Clausen, president and chief executive officer of BankAmerica Corp. (soon to depart for the top post at the World Bank), ticked off four factors that would prevent BofA's earnings in the first quarter of 1981 from matching, never mind beating, profits in the first quarter of 1980: 1) higher operating expenses, caused by inflation, 2) "less than normal" growth in loan demand and net interest revenues, 3) "extraordinarily high" short-term interest rates, squeezing the spread between interest rates on BofA's deposits and the money it borrows and lends, and 4) growing competition from nonbanks.

Whether the first-quarter pattern will prevail all year is anybody's guess.

Undiscussed by Clausen but very much on the minds of bankers right now is yet another worry—the prospect of losses on loans to strapped corporate borrowers. "Many companies are running out of cash and are in industries where they can't pass along high interest rates to their customers," says John F. McGillicuddy, chairman of Manufacturers Hanover Trust Co. "Our losses on loans to corporations will eat into domestic operating profits this year."

U.S. banks will likely suffer heavier loan losses in 1981 than in any year since 1975-76, when failing real estate invest-

A few superlatives

Performance highlights, drawn from the tables on the following pages.

Biggest—fastest			Smallest—slowest	
Citicorp (NY)	$114,920	**Total bank assets[1]—1980**	First National Bancorp (Colo)	$2,499
Mercantile Texas (Tex)	36.3%	**Growth of assets[2]** Industry median: 12.3%	Fidelcor (Pa)	–1.5%
BanCal Tri-State (Cal)	61.1%	**Growth of earnings per share[2]** Industry median: 15.2%	First Pennsylvania (Pa)	P-D
Allied Bancshares (Tex)	23.6%	**Four-year return on equity** Industry median: 13.8%	First Pennsylvania (Pa)	–6.2%
Trust Co of Georgia (Ga)	7.07%	**Net interest margin—1980** Industry median: 4.49%	First Chicago (Ill)	1.77%
JP Morgan (NY)	$36,119	**Value of managed trust assets[1]**	Hartford National (Conn)	$2,822
Home Federal S&L (Cal) Twin City Federal S&L (Minn)	1.37% 1.37%	**S&Ls' spread between earnings assets and cost of funds**	Talman Home Federal S&L (Ill)	–1.17%

[1]Dollar value in millions. [2]Compounded annual rate '75-'80. P-D profit to deficit.

1981 Annual Banking Survey

100 largest bank holding companies: a statistical profile

Rank	1980 size measures ($millions) Total assets	Total deposits	% domestic demand deposits	Total loans	Loan loss res as % of loans	Total investments	Standby letters of credit	Total capital	Long-term debt % capital	Total operating income	Net income[1]	Company and headquarters
1	$114,920	$71,771	14.0%	$70,421	0.8%	$6,695	$10,084	$5,853	60.1%	$14,211	$507.0	Citicorp (NY)
2	111,617	88,426	14.7	63,022	0.9	7,431	2,824	5,177	24.3	12,075	645.0	BankAmerica (Cal)
3	76,190	56,846	25.8	46,974	1.1	4,738	3,500	4,239	36.6	8,003	364.7	Chase Manhattan (NY)
4	55,522	41,745	32.1	30,621	1.0	2,693	2,030	2,640	34.8	5,189	230.2	Mfrs Hanover (NY)
5	51,991	35,594	32.0	26,209	1.0	4,584	2,753	2,758	20.9	5,173	367.7	J P Morgan (NY)
6	42,059	27,314	19.2	26,784	1.0	2,506	2,610	2,201	30.7	4,716	224.1	Continental Illinois (Ill)
7	41,342	30,067	31.9	22,362	1.0	3,264	3,019	1,953	30.5	4,300	175.2	Chemical New York (NY)
8	34,202	23,816	30.7	17,195	1.2	2,315	2,623	1,457	20.6	3,639	180.9	Bankers Trust NY (NY)
9	32,110	24,864	34.9	17,937	1.3	4,809	721	2,087	32.9	3,296	233.4	Western Bancorp (Cal)
10	28,699	21,361	15.3	16,939	0.9	1,621	1,419	1,533	21.4	3,415	66.5	First Chicago (Ill)
11	27,794	21,169	25.6	18,333	1.0	2,314	1,067	1,818	35.6	3,117	181.9	Security Pacific (Cal)
12	23,638	16,207	26.3	16,105	0.9	1,672	398	1,718	46.8	2,545	121.7	Wells Fargo (Cal)
13	19,063	14,909	27.6	12,402	1.1	1,181	504	999	26.1	2,006	95.1	Crocker National (Cal)
14	18,090	14,163	41.2	8,576[2]	1.5	1,454	546	840	30.6	1,740	85.8	Irving Bank (NY)
15	17,480	14,163	25.4	9,697	1.2	1,268	514	1,114	31.6	1,859	58.4	Marine Midland Banks (NY)
16	16,156	10,890	25.0	7,982	1.6	1,121	214	1,306	41.0	1,595	114.2	Mellon National (Pa)
17	15,948	10,815	20.1	8,565	1.3	1,875	360	1,192	38.7	2,333	103.1	First Natl Boston (Mass)
18	14,395	11,044	28.4	7,693	1.0	2,448	156	1,178	31.0	1,478	116.7	Northwest Bancorp (Minn)
19	13,781	10,076	31.0	7,068	1.1	2,229	486	1,080	36.3	1,383	122.0	First Intl Bancshs (Tex)
20	13,475	9,765	29.7	7,233	1.0	2,500	371	1,134	30.3	1,336	111.6	First Bank System (Minn)
21	11,867	8,473	30.4	6,109	1.2	1,709	309	792	26.3	1,246	88.1	Republic of Texas (Tex)
22	11,287	8,631	39.5	5,730	1.2	1,576	287	633	8.9	1,029	103.0	Texas Comm Bancshs (Tex)
23	11,275	8,722	35.4	5,443	1.3	2,002	285	647	11.1	1,061	90.4	First City Bancorp (Tex)
24	10,869	7,80	30.4	5,285	1.3	1,837	47	773	14.4	1,024	80.0	National Detroit (Mich)
25	10,423	8,819	27.9	5,711	0.8	1,065	156	433	8.9	1,102	50.5	Bank of New York (NY)
26	9,588	7,239	29.8	6,200	1.1	512	168	609	20.3	1,037	69.8	Seafirst (Wash)
27	7,771	5,981	38.4	4,532	1.2	639	212	436	28.2	823	30.1	European American[3] (NY)
28	7,176	5,060	32.2	3,190	1.2	776	82	529	33.8	742	47.7	NCNB (NC)
29	7,004	4,999	45.6	3,829	1.1	1,177	139	367	13.0	681	32.5	Union Bank[3,5] (Cal)
30	6,905	4,759	32.0	3,504	0.8	721	2	353	0.6	726	33.0	Harris Bankcorp (Ill)
31	6,447	4,394	9.3	2,590	2.1	1,026	76	487	36.4	771	74.0	Republic New York (NY)
32	6,225	4,176	28.3	3,130	1.1	827	170	410	14.2	632	55.6	Pittsburgh Natl (Pa)
33	6,210	4,172	42.3	3,223	1.2	721	92	449	25.9	639	40.8	Philadelphia Natl (Pa)
34	5,854	4,397	38.6	2,548	1.4	1,088	45	485	33.8	603	47.9	Southeast Banking (Fla)
35	5,849	4,163	30.6	2,865	1.1	571	172	324	9.3	616	33.1	Northern Trust (Ill)
36	5,757	4,710	24.3	3,692	0.6	899	19	456	27.5	605	40.7	Michigan National (Mich)
37	5,733	4,785	32.7	3,626	1.3	806	58	306	0.2	604	53.2	Valley National Bank[5] (Ariz)
38	5,728	1,969	40.0	4,087	2.1	401	98	1,352	73.1	772	43.0	Walter E Heller Intl[3,6] (Ill)
39	5,693	4,455	27.1	3,386	1.0	626	68	311	6.2	575	15.4	Natl Bank of N Amer[3,5] (NY)
40	5,668	3,977	22.9	2,649	1.1	1,336	54	352	9.2	528	39.1	DETROITBANK (Mich)
41	5,654	4,030	36.4	2,937	1.2	682	54	371	4.4	552	54.3	Wachovia (NC)
42	5,602	3,936	27.1	3,148	1.1	1,182	64	534	0.0	566	58.4	AmeriTrust (Ohio)
43	5,497	3,619	27.5	3,420	1.4	967	89	873	75.3	756	—73.6	First Pennsylvania (Pa)
44	5,490	3,425	29.7	2,212	1.4	1,266	41	432	16.5	523	52.0	National City (Ohio)
45	5,460	3,907	44.2	3,228	1.3	917	183	396	29.5	554	49.7	Mercantile Texas (Tex)
46	5,222	3,833	27.3	3,327	1.0	472	35	362	17.3	569	39.4	Rainier Bancorp (Wash)
47	5,002	3,917	29.5	2,702	0.9	1,166	84	306	4.5	512	18.7	BancOhio (Ohio)
48	4,879	3,681	30.2	3,320	0.9	634	37	588	38.0	527	58.2	U S Bancorp (Ore)
49	4,769	3,724	26.9	2,879	0.9	844	69	310	16.7	484	27.1	Manufacturers Natl (Mich)
50	4,646	3,071	36.7	2,144	1.2	746	60	343	27.6	467	37.8	Mercantile Bancorp (Mo)

[1]Four-year average is a compounded annual rate, 1976/80. [2]From continuing operations after security gains or losses excluding gain on sale of operations and extraordinary sale of operations and extraordinary items. [3]Includes leases. [4]Includes guarantees. [5]Company not publicly traded; stock data not available. [6]Bank only; not organized as a def: deficit. NA: Not available.

Growth measures[1]							Profitability & cost measures			Stock data			
Average assets 4-year average	Average assets 1980 vs 1979	Equity per share 4-year average	Equity per share 1980 vs 1979	Earnings per share[2] 4-year average	Earnings per share[2] 1980 vs 1979	Dividend 4-year average	Return on equity 4-yr avg	Net interest margin[3] 1980	Overhead times NI 1980	Recent price	1980 EPS[2]	P/E ratio	Current yield
16.3%	13.6%	10.5%	9.3%	5.8%	–7.4%	10.3%	15.2%	2.86%	3.2	22¼	$ 4.02	5.7	6.2%
12.7	10.4	12.4	12.6	16.1	6.8	15.6	18.3	3.45	3.6	27⅝	4.38	6.2	5.3
12.3	14.3	7.8	11.1	29.3	15.2	6.2	12.3	3.17	4.0	46⅝	10.15	4.6	6.6
13.5	15.7	8.6	8.8	9.3	7.0	8.8	14.5	3.25	3.8	32¼	6.87	4.6	8.3
16.8	18.9	10.7	11.8	13.4	17.8	11.7	15.4	2.67	1.7	51¼	8.33	6.2	6.0
17.7	19.0	10.8	11.6	12.2	15.2	9.0	16.0	2.55	2.5	34⅝	5.75	6.0	5.2
11.5	12.2	6.3	9.3	14.6	29.5	4.2	12.7	3.32	4.5	51½	11.05	4.7	7.5
11.0	14.3	7.4	14.0	33.2	55.1	2.4	13.1	3.07	3.2	31	7.21	4.3	6.0
12.3	9.9	11.6	12.4	23.8	5.9	17.7	16.3	4.86	4.2	37⅝	5.70	6.5	5.0
11.5	12.4	5.8	1.1	–12.2	–43.8	5.7	10.0	1.77	7.1	15½	1.59	9.7	7.7
14.1	12.2	11.1	12.2	21.8	10.3	13.7	16.6	3.93	4.1	36	6.55	5.5	5.6
15.6	14.5	10.8	9.2	14.3	–2.2	17.5	15.6	3.89	4.9	27	5.83	5.1	7.1
12.5	15.6	9.3	7.6	16.2	1.2	6.7	15.2	4.98	5.9	39¼	6.76	5.8	6.1
12.6	11.0	9.4	12.1	18.8	24.8	8.0	14.0	3.84	4.1	47⅝	9.70	4.9	6.4
11.7	11.7	4.2	3.6	38.6	9.1	1.3	7.1	3.38	6.4	17¼	3.47	5.1	5.9
11.5	17.9	7.7	9.1	15.0	16.5	9.8	12.1	3.23	2.3	31¾	5.73	5.5	6.4
16.6	20.1	7.6	10.0	23.0	20.2	4.0	12.3	3.93	4.1	37¾	8.22	4.6	6.6
14.3	12.7	10.6	10.5	13.8	6.3	13.3	15.6	4.09	3.3	41	4.39	7.1	4.8
14.2	12.0	12.9	13.9	17.3	18.4	15.7	18.3	4.16	2.0	32¼	5.66	9.2	3.4
14.2	12.1	10.6	11.0	13.0	9.1	10.2	15.4	4.08	2.7	43¾	7.42	5.9	5.6
18.3	13.5	12.9	12.6	20.0	18.8	11.7	15.2	3.56	2.4	39⅛	4.81	8.2	3.6
16.7	12.7	14.4	15.7	20.2	22.1	12.5	18.7	4.60	1.9	34	3.48	9.8	2.7
14.4	12.8	12.6	13.1	19.4	23.8	15.3	16.9	4.56	2.6	60½	6.61	9.2	3.5
8.3	11.3	8.4	8.2	9.0	–2.6	9.3	12.9	3.90	3.0	26⅞	6.08	4.4	7.4
21.6	19.4	6.2	5.1	8.0	6.2	6.1	12.5	3.29	4.7	35¼	7.49	4.7	8.5
16.1	13.7	11.9	11.1	13.6	4.7	12.6	16.0	4.78	4.1	38¼	4.48	6.3	4.5
14.6	13.5	11.9	7.6	36.0	46.7	—	8.0	3.49	4.9	—	—	—	—
12.5	16.1	10.1	10.2	22.1	7.4	10.0	14.5	3.78	3.4	15¾	2.60	5.9	5.2
12.0	5.0	12.3	15.2	19.9	–5.6	—	12.7	4.50	6.1	—	—	—	—
10.5	7.8	5.3	5.0	–2.9	3.0	7.5	9.8	2.91	5.1	26¾	4.51	5.8	7.6
35.8	56.6	16.9	28.2	30.6	85.3	30.4	21.1	3.47	1.9	28⅝	5.15	5.6	4.2
15.4	22.2	8.8	9.3	11.9	6.4	11.5	14.1	3.85	2.7	46	7.77	5.9	6.5
10.4	9.1	7.1	7.9	9.3	19.4	5.9	11.6	4.49	4.7	31¾	6.89	4.5	9.3
12.6	23.0	6.2	11.1	31.2	16.6	15.9	12.8	5.37	4.0	19⅞	3.23	6.2	5.0
11.9	9.9	7.3	7.3	4.5	17.9	8.5	10.9	3.29	4.5	36	6.51	5.5	6.8
11.3	5.8	13.0	9.5	8.0	–9.3	19.5	16.6	4.90	4.6	18½	3.98	4.6	6.5
14.3	14.1	13.1	14.5	26.1	13.1	14.3	18.1	5.49	3.5	36⅞	5.26	7.0	4.3
12.1	9.8	8.6	8.8	11.7	6.2	9.2	13.8	4.78	3.1	23⅜	3.61	6.5	5.6
15.8	17.0	5.7	0.3	10.9	–9.3	—	6.1	3.70	9.4	—	—	—	—
12.1	8.5	9.2	8.0	7.0	–12.2	13.4	13.6	3.43	3.4	20	4.19	4.8	10.0
11.7	12.2	9.7	10.6	11.3	13.7	9.6	13.9	5.12	3.3	22⅛	3.08	7.2	4.3
7.6	6.0	6.9	5.5	5.3	–9.4	11.3	11.5	4.55	2.7	30	5.62	5.3	9.1
2.1	–19.8	–11.7	–39.5	P-D	P-D	–36.1	–6.2	2.46	—	4⅜	–9.28	def	0.0
14.3	20.0	9.2	7.8	4.3	–2.9	11.6	15.6	4.16	2.4	33½	5.97	5.6	8.2
36.3	12.6	13.8	13.6	17.5	19.1	11.7	19.9	4.71	2.5	26⅛	2.99	8.8	3.8
14.3	9.2	11.2	9.8	10.7	1.0	18.7	13.3	5.27	4.5	25⅛	4.15	6.1	5.4
8.7	5.6	3.8	–1.1	–22.8	–73.3	6.5	8.8	4.02	20.5	14	0.99	14.1	5.7
11.1	9.8	13.6	13.3	15.3	10.4	10.4	18.1	5.71	2.6	29	4.03	7.2	4.1
12.3	6.9	8.5	6.7	8.5	–15.2	12.0	13.8	3.85	4.5	21½	5.48	3.9	10.2
11.6	9.9	7.9	10.4	13.9	17.2	2.2	14.8	3.78	2.6	26⅞	6.42	4.2	9.2

items. [2]Net interest income on a tax equivalent basis as a percentage of average earning assets. [3]From continuing operations before security gains or losses excluding gain on holding company. [4]Bank only. [5]Includes the results of nonbank operations where applicable. [6]Growth based on year-end assets. P-D: profit to deficit.

1981 Annual Banking Survey

100 largest bank holding companies: a statistical profile

Rank	Total assets	Total deposits	% domestic demand deposits	Total loans	Loan loss res as % of loans	Total investments	Standby letters of credit	Total capital	Long-term debt % capital	Total operating income	Net income[a]	Company and headquarters
	1980 size measures ($millions)											
51	$4,524	$3,245	34.6%	$2,708	1.1%	$ 742	$64	$280	25.0%	$514	$29.4	First Wisconsin (Wisc)
52	4,431	3,573	40.9	2,069	1.4[b]	1,305	23	329	25.4	435	38.0	Barnett Banks of Fla (Fla)
53	4,386	3,183	43.7	2,599	1.2	441	89	359	31.0	453	35.0	Girard (Pa)
54	4,341	3,295	47.9	2,337	2.0	756	26	273	7.7	460	37.2	Citizens & Sthn Ga (Ga)
55	4,271	2,868	42.3	2,077	1.1[b]	682	67	288	15.4	417	32.3	First Union Bancorp (Mo)
56	4,158	3,243	41.7	2,025	1.2	617	54	273	17.6	378	30.9	Southwest Bancshs (Tex)
57	4,063	2,951	33.0	2,471	1.1	360	38	329	23.1	418	32.0	Maryland National (Md)
58	3,947	3,264	13.2	1,993	1.0	588	71	226	16.8	395	11.7	Bank of Tokyo Trust[c] (NY)
59	3,919	3,058	35.8	2,102	1.3	766	22	236	18.7	298	20.9	First Natl State Bcp (NJ)
60	3,852	2,618	32.5	1,917	1.5[b]	622	33	246	26.2	397	17.9	BanCal Tri-State (Cal)
61	3,621	3,146	29.3	2,416	1.1	600	58	207	30.1	382	17.8	California First Bnk[a] (Cal)
62	3,601	2,705	30.7	2,057	1.1	521	20	404	33.8	396	41.1	First Security (Utah)
63	3,565	2,376	25.3	1,451	1.4	1,068	41	271	30.2	351	26.0	Centran (Ohio)
64	3,456	2,502	44.9	1,788	1.5	535	32	202	17.7	346	17.4	Shawmut (Mass)
65	3,454	2,673	34.3	2,365	1.1	445	55	333	37.0	367	34.2	United Virginia Bshs (Va)
66	3,452	2,478	17.7	1,992	1.6[b]	771	33	358	48.3	405	28.2	Industrial National (RI)
67	3,435	2,502	30.4	2,011	1.1	536	32	268	32.4	347	20.8	Lincoln First Banks (NY)
68	3,431	2,603	26.1	1,682	1.3	901	23	257	13.3	340	28.6	Society (Ohio)
69	3,404	2,628	37.4	1,863[b]	1.5[b]	569	27	244	19.5	310	28.8	Midlantic Banks (NJ)
70	3,371	2,554	40.0	1,814	1.2	620	31	279	25.6	336	30.2	Texas American Bshs (Tex)
71	3,316	2,451	38.6	1,731	1.7[b]	386	65	232	31.7	336	14.2	Fidelcor (Pa)
72	3,312	2,563	39.0	1,669	1.1	845	14	242	16.2	326	29.8	Sun Banks of Florida (Fla)
73	3,282	2,270	35.8	1,856	1.7[b]	519	24	280	37.1	388	28.2	First Union (NC)
74	3,259	2,559	38.2	1,707	1.3	656	49	240	14.9	265	23.4	Fidelity Union Bncp (NJ)
75	3,207	2,717	32.1	1,706	1.0	673	30	215	11.9	307	26.5	BayBanks (Mass)
76	3,175	2,331	46.6	1,762[b]	1.1[b]	383	59	201	25.7	330	21.4	CBT (Conn)
77	3,149	2,501	40.6	1,539	1.0	469	54	182	3.1	289	24.3	Riggs Natl Bank[a] (DC)
78	3,147	2,292	37.0	1,563	1.5	288	21	254	31.8	331	24.0	First Atlanta (Ga)
79	3,112	2,196	60.3	1,434	2.3	539	25	232	19.6	338	37.7	Trust Co of Georgia (Ga)
80	3,009	1,902	47.1	1,128	1.9	671	41	213	33.0	317	21.8	State Street Boston (Mass)
81	2,916	2,267	36.2	1,529	1.4[b]	610	17	246	27.6	298	23.7	First Tennessee Natl (Tenn)
82	2,890	2,221	33.6	1,403	1.5	420	58	201	30.0	353	21.4	New Eng Merchants (Mass)
83	2,863	2,087	25.6	1,517	0.9	799	58	162	23.7	290	9.6	Equimark (Pa)
84	2,855	2,469	41.0	1,744	1.8	543	86	231	22.6	294	37.3	Allied Bancshares (Tex)
85	2,831	2,133	32.1	1,513	1.1	483	12	193	12.7	277	22.8	Huntington Bancshs (Ohio)
86	2,824	2,321	30.3	1,568	1.2	705	24	239	15.0	300	33.4	Banc One (Ohio)
87	2,765	2,235	39.1	1,450	1.4	605	30	234	7.2	279	25.0	Commerce Bancshares (Mo)
88	2,753	2,209	56.9	1,374	1.2	326	60	134	26.6	245	13.8	Hartford National (Conn)
89	2,752	1,944	36.0	1,549	1.5	589	62	251	15.9	295	30.9	Provident National (Pa)
90	2,740	2,076	45.0	1,520	1.1	436	57	215	26.8	287	24.2	United Banks of Colo (Colo)
91	2,739	2,138	39.9	1,593	1.6[b]	608	23	255	22.4	282	28.3	Alabama Bancorp (Ala)
92	2,714	2,156	28.2	1,467	1.1[b]	399	49	176	4.7	273	24.4	American Security (DC)
93	2,709	2,344	29.5	1,786	1.1	361	24	144	5.2	301	14.8	Lloyds Bank Calif[c][d] (Cal)
94	2,704	2,172	36.4	1,518	1.2	510	29	237	33.5	288	23.4	Virginia Natl Bkshs (Va)
95	2,657	1,773	30.7	1,384	1.3	392	17	170	6.1	293	19.1	American Fletcher (Ind)
96	2,630	2,061	32.2	988	1.4	557	9	153	20.2	281	24.1	Banco Popular[a] (PR)
97	2,628	2,066	40.7	1,476	1.0	451	21	171	29.3	237	14.9	United Jersey Banks (NJ)
98	2,527	2,097	36.7	1,299	1.6	719	10	224	23.8	196	16.5	Key Banks (NY)
99	2,526	2,010	28.8	1,443	1.2	515	14	204	24.8	257	22.2	Dominion Bankshares (Va)
100	2,499	1,957	53.4	1,398	1.1[b]	291	93	191	21.7	270	21.0	First Natl Bancorp (Colo)
			32.1		1.2				24.9			MEDIANS

[a]Four-year average is a compounded annual rate: 1977-80. [b]From continuing operations after security gains or losses excluding gain on sale of operations and extraordinary sale of operations and extraordinary items. [c]Includes leases. [d]Includes guarantees. [e]Company not publicly traded; stock data not available. [f]Bank only; not organized as a def. deficit. NA Not available

Growth measures[1]							Profitability & cost measures			Stock data			
Average assets		Equity per share		Earnings per share[2]		Dividend	Return	Net interest	Overhead				
4-year average	1980 vs 1979	4-year average	1980 vs 1979	4-year average	1980 vs 1979	4-year average	on equity 4-yr avg	margin[3] 1980	times NI 1980	Recent price	1980 EPS[4]	P/E ratio	Current yield
6.4%	–1.0%	5.5%	5.2%	23.4%	33.8%	1.7%	11.3%	3.53%	4.3	31	$7.09	4.4	6.1%
14.4	15.9	9.9	12.8	28.5	20.4	11.2	14.1	3.90	4.4	32¾	4.42	7.4	3.7
3.9	–0.4	8.1	8.4	3.6	3.6	5.0	13.9	4.54	5.5	24¾	6.30	3.9	9.1
8.3	12.5	5.8	13.4	25.2	55.7	–11.4	7.4	3.77	4.8	6⅜	1.23	7.0	4.6
11.0	7.2	8.2	8.7	9.1	10.1	6.9	13.3	4.28	3.3	20¾	4.37	4.7	7.7
14.5	15.5	8.8	9.4	12.6	21.9	9.9	13.5	4.80	3.1	37	4.31	8.2	4.2
10.5	10.6	9.5	10.6	17.6	22.6	6.9	13.0	5.37	4.1	21¼	4.28	5.0	4.7
14.9	21.6	8.1	6.9	4.8	–11.0	—	8.1	NA	2.3	—	—	—	—
9.5	6.8	3.3	–2.3	14.1	14.9	2.4	11.7	4.19	4.0	21⅝	5.09	4.2	10.3
3.6	9.7	8.2	5.9	61.1	–13.5	8.1	9.2	3.98	6.5	26⅜	3.64	7.3	4.5
13.2	11.2	10.1	9.0	14.7	–9.4	16.9	14.5	4.41	6.5	14⅞	3.17	4.7	7.3
11.4	2.6	12.4	11.3	10.7	7.1	8.3	17.2	5.26	3.0	26½	3.18	8.3	3.8
13.3	10.8	7.4	8.3	9.9	7.4	7.8	12.7	3.70	3.6	24¾	6.21	3.9	10.6
8.1	9.3	6.3	7.4	29.7	12.9	14.0	8.4	4.67	6.6	24¾	4.47	5.5	6.1
7.3	6.3	10.1	12.2	22.7	19.2	9.3	14.7	5.53	3.8	33⅜	5.83	5.6	6.2
12.2	9.7	8.9	10.4	19.7	26.6	7.5	15.0	4.14	3.4	22	4.57	4.8	8.0
5.4	–2.6	4.6	3.8	9.8	–11.5	1.6	11.1	4.74	6.8	26	4.30	6.0	7.7
11.3	14.9	7.0	8.4	8.4	–2.0	12.6	13.1	4.47	3.6	18½	3.90	4.7	7.8
14.2	12.5	5.3	6.6	36.5	11.3	4.2	15.4	5.59	3.7	30½	8.68	3.5	8.3
13.0	11.5	10.5	11.5	15.9	17.5	16.2	14.5	5.07	3.0	34½	4.56	7.6	3.8
–1.5	0.8	0.4	10.1	–5.0	188.9	–35.5	2.8	4.15	8.2	15⅝	2.44	6.7	5.1
15.6	23.5	7.4	9.0	38.2	24.8	8.1	12.0	5.57	4.4	18⅝	2.52	7.2	4.9
11.4	13.2	9.4	12.4	35.3	14.7	4.4	14.7	4.60	4.5	19½	3.89	5.0	5.3
15.2	22.6	6.4	6.9	6.6	4.3	3.9	11.9	5.47	4.1	28	6.12	4.6	10.0
9.4	7.6	8.5	11.6	25.0	19.0	6.0	13.1	5.89	4.4	37	8.82	4.2	8.1
10.8	10.9	7.0	8.1	25.5	16.9	6.7	12.5	5.27	5.2	28½	5.96	4.7	7.1
13.7	15.1	8.3	9.5	16.9	12.0	7.2	13.7	3.91	2.9	61½	8.13	7.6	4.9
7.1	2.0	7.3	10.8	18.9	31.0	4.2	12.3	6.88	3.2	22⅝	3.38	6.5	5.1
11.8	7.2	11.2	15.6	35.7	28.3	9.5	16.9	7.07	3.6	26¼	3.49	7.7	3.9
9.0	16.5	8.1	16.7	32.6	37.6	–3.3	9.7	4.68	5.3	41	9.33	4.4	5.9
8.3	11.1	9.3	9.2	27.6	7.9	16.5	13.7	5.47	4.1	12¾	2.60	4.7	7.5
14.1	17.8	9.8	11.6	19.0	22.1	5.9	15.4	4.26	4.0	32⅝	6.85	4.7	6.5
10.2	6.8	1.0	1.2	–2.1	19.2	2.2	9.1	2.64	6.9	9	1.80	5.0	10.7
21.3	28.5	18.5	21.1	24.2	27.3	25.9	23.6	6.13	1.9	37⅝	3.36	11.0	2.4
13.1	6.9	10.2	10.7	17.5	7.6	7.8	14.7	5.04	3.7	27¼	6.83	4.0	7.3
13.2	13.3	11.7	11.7	14.3	10.4	13.4	17.6	5.85	2.7	33¼	4.76	7.0	5.4
13.2	9.8	8.4	9.2	13.2	18.8	8.9	13.0	5.51	3.1	24¾	5.62	4.4	6.8
5.5	–2.0	8.3	9.9	35.0	47.4	4.8	10.3	4.56	6.2	23⅜	4.83	4.8	6.9
10.7	10.6	8.4	9.1	49.3	35.9	6.9	12.0	4.45	2.7	34¼	6.81	5.0	7.6
15.1	11.6	9.4	11.3	15.1	8.2	8.4	15.4	6.40	4.2	37⅝	5.12	7.3	4.5
10.8	8.1	9.8	10.1	13.3	12.2	6.1	15.6	5.70	3.2	22¾	3.83	5.9	6.3
18.2	14.1	9.7	10.6	10.6	12.2	4.8	15.2	4.21	2.1	44¾	6.62	6.8	5.4
16.3	12.2	12.9	9.0	33.7	–1.3	—	11.6	5.30	7.0	—	—	—	—
7.6	2.5	9.1	7.6	12.9	–4.3	7.8	15.0	6.15	5.5	14⅞	2.93	5.1	8.1
5.8	6.4	9.3	9.6	26.6	0.0	1.7	13.4	3.80	4.0	17¾	4.16	4.1	7.2
18.5[10]	6.4[10]	9.4	8.6	29.5	29.0	8.7	15.9	5.58[9]	4.3	23¾	7.82	3.0	6.9
6.3	3.1	5.7	7.0	14.8	12.1	0.9	11.9	3.91	5.1	13	2.69	4.8	8.8
7.2	5.6	4.2	–10.1	7.3	10.9	4.7	13.1	5.38	4.2	15⅝	3.36	3.9	9.1
9.1	8.2	3.4	8.6	7.9	–2.7	12.8	14.4	5.13	4.1	14¾	2.49	5.7	7.0
10.6	4.2	9.9	10.9	16.6	26.7	7.6	14.4	6.77	4.9	22½	4.18	5.4	5.3
12.3	**11.4**	**8.9**	**9.5**	**15.2**	**12.1**	**8.4**	**13.8**	**4.49**	**4.0**			**5.5**	**6.2**

items. [9]Net interest income on a tax-equivalent basis as a percentage of average earning assets. [10]From continuing operations before security gains or losses excluding gain on holding company. [11]Bank only. [12]Includes the results of nonbank operations where applicable. [13]Growth based on year-end assets. [14]D, profit to deficit.

The 50 largest trust operations

It was a great year for the stock market and, accordingly, for most of the nation's biggest bank trust departments. The 50 giants below managed some $374 billion in 1980, vs. $327 billion in 1979. J.P. Morgan, biggest of the big, as usual, ended the year with a 19% gain in assets under management.

1980 rank	Company	Market value of trust assets* 1980 (millions)	Market value of trust assets* % increase over 1979	Trust department revenues total (thousands)	Trust department revenues % change from 1979	Trust department revenues % of total operating revenues
1	JP Morgan	$36,119	18.9%	$147,627	15.3%	2.9%
2	Citicorp	26,317	3.4	109,310	23.9	0.8
3	Manufacturers Hanover	18,285	7.8	64,138	14.4	1.2
4	Bankers Trust	17,686	22.3	63,368	3.7	1.7
5	Mellon National	12,634	2.5	28,250	15.6	1.8
6	Harris Bankcorp	12,499	7.4	38,837	14.5	5.4
7	Chase Manhattan	11,198	19.2	73,690	17.7	0.9
8	Provident National	10,440	40.3	26,376	29.7	8.9
9	US Trust	9,650	0.4	52,304	6.5	23.4
10	First Chicago	9,594	9.8	44,211	22.2	1.3
11	Continental Illinois	9,455	23.7	44,809	19.7	1.0
12	BankAmerica	9,269	31.6	60,520	11.1	0.5
13	Wells Fargo	9,175	28.3	28,928	11.0	1.1
14	Northern Trust	9,147	17.3	48,844	16.5	7.9
15	Chemical New York	9,094	10.9	49,811	13.0	1.2
16	Western Bancorp	8,656	3.9	44,190	15.2	1.3
17	Wilmington Trust	8,439	25.4	12,315	20.0	8.4
18	Crocker National	8,295	38.6	31,359	28.6	1.6
19	First Bank System	8,279	10.9	33,182	15.4	2.5
20	First National Boston	7,830	26.0	40,577	18.5	1.7
21	National Detroit	6,669	–10.5	27,874	12.6	2.7
22	Bank of New York	6,643	17.9	71,383	38.3	6.5
23	AmeriTrust	6,180	17.5	27,003	14.7	4.8
24	Fiduciary Trust Co of NY	5,794	20.4	16,151	–1.4	67.3
25	Capital Guardian Trust	5,647	25.5	NA	NA	NA
26	First International Bancshares	5,318	38.0	18,766	16.2	1.4
27	First Union Bancorp	5,202	16.4	16,610	12.4	4.0
28	Northwest Bancorporation	5,081	12.6	26,915	10.4	1.8
29	Girard	4,800	14.3	21,155	14.0	4.7
30	Security Pacific	4,243	7.4	32,452	8.1	1.0
31	Republic of Texas	4,215	12.6	20,140	14.4	1.6
32	American Natl (Chicago)	4,149	44.3	10,622	12.4	4.0
33	National City Corp	4,117	17.4	14,548	12.5	2.8
34	First City Bancorp	4,108	37.9	13,756	24.8	1.3
35	Irving Bank Corp	3,510	7.5	24,863	6.0	1.4
36	State Street Boston Corp	3,467	32.6	28,716	30.8	9.0
37	Boatmen's Bancshares	3,298	20.6	6,264	12.4	3.4
38	Citizens & Southern Ga	3,246	16.8	9,728	4.9	2.1
39	DETROITBANK	3,212	7.7	15,428	20.3	2.9
40	First Wisconsin Corp	3,166	13.3	13,375	18.6	2.6
41	First Pennsylvania	3,158	1.9	16,603	13.1	2.2
42	Marine Midland	3,106	11.8	18,885	3.8	1.0
43	Trust Co of Georgia	3,093	7.6	15,795	13.4	4.7
44	Mercantile Bancorp	3,093	16.0	10,899	11.3	2.3
45	Wachovia Corp	3,083	0.7	17,791	13.1	3.2
46	Tex Commerce Bancshares	2,940	52.4	13,602	11.9	1.3
47	Mercantile Bankshares	2,909	12.6	15,127	16.3	10.6
48	Pittsburgh Natl Corp	2,876	12.0	17,737	9.0	2.8
49	American Fletcher Corp	2,823	9.3	7,705	21.1	2.6
50	Hartford National	2,822	18.8	14,656	18.3	6.0

*Includes accounts over which the bank exercises investment discretion. NA: Not available.

ment trusts nearly wiped out dozens of banks. Manufacturers Hanover has been bracing for it. "We increased our reserve for possible loan losses by $28 million last year, to a record $272 million," says McGillicuddy. "Moreover, the charge-offs of $59 million last year, up from $56 million the year before, reflect our recognition of all known problem credits. We enter 1981 with a clean slate."

Not every bank can say the same. Loan loss ratios *(see tables, pp. 136-139)* have kept pace with neither the rising dollar volume of loans outstanding nor the declining cash positions of so many of the banks' corporate borrowers. If Manny Hanny with its "clean slate" expects loan losses to hurt operating profits, it seems reasonable to suppose a good many other banks will suffer, too.

Analyst Charles Lott, one of the optimists about bank stock prospects, concedes that loan losses will increase this year. He estimates they will rise from 0.35% of loans outstanding last year to between 0.40% and 0.45%. (In 1975 the figure was 0.65%.) But Lott points out that banks will be earning more from their larger loan portfolios. Earnings gains in the 5%-to-8% range, he thinks, would be more than enough to offset the larger loan losses he foresees. And to the extent that bank earnings are being squeezed by high interest rates, they will get some relief as interest rates decline.

But such flat predictions are dangerous at a time when the Fed's policy is "watch the money supply, interest rates be damned." This policy virtually guarantees wildly fluctuating interest rates. First National Bank of Chicago and First Pennsylvania Bank got into trouble when they borrowed short and lent long—this was late 1979 and 1980, respectively, while interest rates were generally rising. That's why you hear a lot of bankers talking these days about "funds management" or "interest-rate sensitivity management." It's jargon for a piece of common sense—paying close attention to the rates and maturities of the money they borrow and the rates and maturities of the loans they extend. It's a delicate art these days.

A lot of bank stock analysts think that the more closely banks watch these things the less chance there will be for a costly mismatch. That's not necessarily so, says Donald B. Riefler, chairman of Morgan Guaranty's sources and uses of funds committee. "Programs to match assets and liabilities must leave some room for risk taking," he says. "Otherwise, pure balancing of assets and liabilities limits the earnings potential as well as the loss potential."

You can expect the banks to do their damnedest to avoid mismatches of assets and liabilities over the long term, but, as Riefler insists, don't expect bank earnings to be bombproof from quarter to quarter. Especially this year. ■

If they tried to mark their portfolios to market, it seems as if there would hardly be a solvent savings and loan in the country.

Who will clean up the mess?

AN EDUCATED CONSUMER IS our best customer." So goes the advertising for a large New York discount clothing chain. You won't hear the thrifts talking that way. Educated consumers are *their* downfall. It's not that the thrifts were actively cheating anyone. It's simply that they were the most convenient way for the ordinary American to save and the thrifts didn't have to pay more than 6%—no matter how high market rates were—because that was the maximum the law permitted them to pay. The law, in its lack of wisdom, wanted to make sure the thrifts had plenty of low-cost money to lend to prospective home buyers. If the saver was being shortchanged, our lawmakers didn't seem to care. The silly situation worked as long as the average saver either couldn't get a better rate or didn't know how to go about it. But now the consumer *is* educated. Thanks to the money market funds and widespread advertising of

The 25 largest savings and loan associations

Margins are under intense pressure: The more they lend, it seems, the more they lose. No surprise, then, that many savings and loan institutions are in the red—or headed there—for the first time in history.

	1980 size measures ($ millions)							
Rank	Total assets	Savings accounts	Loans receivable	Investment securities	Advances from FHLB	Total revenues	Net income	Company (location)
1	$13,110	$10,072	$11,391	$ 216	$1,343	$1,371	$48.1	H F Ahmanson (Cal)
2	10,253	7,774	8,573	1,324	1,055	997	39.2	Great Western Financial (Cal)
3	9,676	7,211	8,841	516	673	955	39.2	First Charter Financial (Cal)
4	7,347	5,481	6,155	711	821	714	40.7	Imperial Corp of America (Cal)
5	6,397	4,612	5,474	575	684	575	6.2	California Federal S&L[2] (Cal)
6	5,579	3,418	4,017	1,268	791	485	38.1	Golden West Financial (Cal)
7	5,006	3,740	4,160	550	519	471	20.1	Glendale Federal S&L[2] (Cal)
8	4,431	2,972	4,021	160	786	458	26.7	Home Federal S&L[2] (Cal)
9	4,295	3,017	3,934	221	771	426	–7.9	Gibraltar Financial (Cal)
10	3,687	3,074	3,243	262	338	329	6.8	First Fed S&L of Detroit[2] (Mich)
11	3,467	2,662	2,332	241	341	307	–6.9	Talman Home Federal S&L[2] (Ill)
12	3,395	2,693	2,660	462	212	270	3.2	First Federal S&L Chicago[2,3] (Ill)
13	3,317	2,939	2,898	53	167	288	4.8	Standard Federal S&L[2] (Mich)
14	3,021	2,211	2,633	260	260	295	5.0	Coast Federal S&L[2] (Cal)
15	3,018	2,276	2,672	200	420	274	4.4	Allstate S&L[4] (Cal)
16	2,900	2,194	2,500	127	270	296	24.9	United Financial of Calif[5] (Cal)
17	2,854	2,213	2,517	250	321	291	9.4	AmeriFirst Federal S&L[2] (Fla)
18	2,853	1,657	2,597	60	976	282	–1.4	Fidelity Financial (Cal)
19	2,615	2,107	2,126	415	177	207	–26.2	West Side Federal S&L [2,3] (NY)
20	2,492	1,974	2,260	141	269	230	9.8	First Federal S&L Broward [2,3] (Fla)
21	2,474	1,906	2,194	157	350	225	1.9	Twin City Federal S&L[2] (Minn)
22	2,456	1,856	2,157	89	292	264	9.4	San Diego Federal S&L[2,3] (Cal)
23	2,362	2,003	2,149	32	154	228	2.9	Financial Federation (Cal)
24	2,337	1,746	1,990	207	218	220	3.3	City Federal S&L (NJ)
25	2,297	1,793	1,949	180	234	175[6]	12.5[6]	Community Federal S&L[2,3] (Mo)

[1]Four-year average is a compounded annual rate: 1976/1980. [2]Mutual savings and loan association. [3]Based on data from the Federal Home Loan Bank. [4]Subsidiary of Sears,

savings certificates, the public knows *exactly* where to go to get 15% or better. So, here are the thrifts sitting with all those long-term mortgages at 10% and less and carrying them with 15% money.

The numbers themselves tell a staggering story. As recently as late 1978, savings and loans bulged with $365 billion in passbook and time deposits carrying the lowest interest rates—generally paying 5.5% but going as high as 8%. Since then more than a quarter of a trillion dollars in these funds have run off, leaving the S&Ls with only $105 billion in low-interest deposits. To replace the lost deposits, the S&Ls have had to pay between 13% and 15% on nearly $300 billion in certificates. The rough part is that many of the certificate holders are former depositors who would no longer accept minimal returns. The net interest cost to the S&Ls of the change in asset mix will be close to $25 billion this year.

One of the early financial crises the Reagan Administration may have to face will involve the thrifts.

The depositors, happily, aren't likely to be hurt. The Federal Savings & Loan Insurance Corp. and the Federal Home Loan Bank Board will both see to that. However, a large number of the savings institutions themselves will disappear into the merger with stronger thrifts. The Reagan Administration, which wants no more Chrysler-type bailouts, will also insist on protecting them.

Most of the thrift industry is now in the red—paying out more in interest and expenses than it is taking in. Inevitably the weaker ones will fail and the federal authorities will force them to merge with stronger units—on terms that can only be favorable to the stronger units.

The wait, however, for the emergence of fewer but stronger units may wind up being a long one.

The moral of the story is that lending long and borrowing short is a very dangerous practice, especially in inflationary times. And yet, that, in effect, is what the thrift industry is all about: borrowing short, lending long.

There is one ray of light. Unlike steel mills or other brick-and-mortar investments, home mortgage portfolios are self-liquidating. Every monthly payment consists of some interest and amortization. If it can hang on long enough a thrift can replace its cheap mortgages with more expensive ones. Somewhere along the line, the spread between the cost of borrowed money and what it can earn will come back into balance. That's why there is some bargain-hunting going on now among the publicly owned thrifts by people who can afford to wait for the payoff. There is this attraction for them: Nearly all the publicly owned thrifts now sell at about 55% to 60% of book value, a bigger discount than the usual 75% of book.

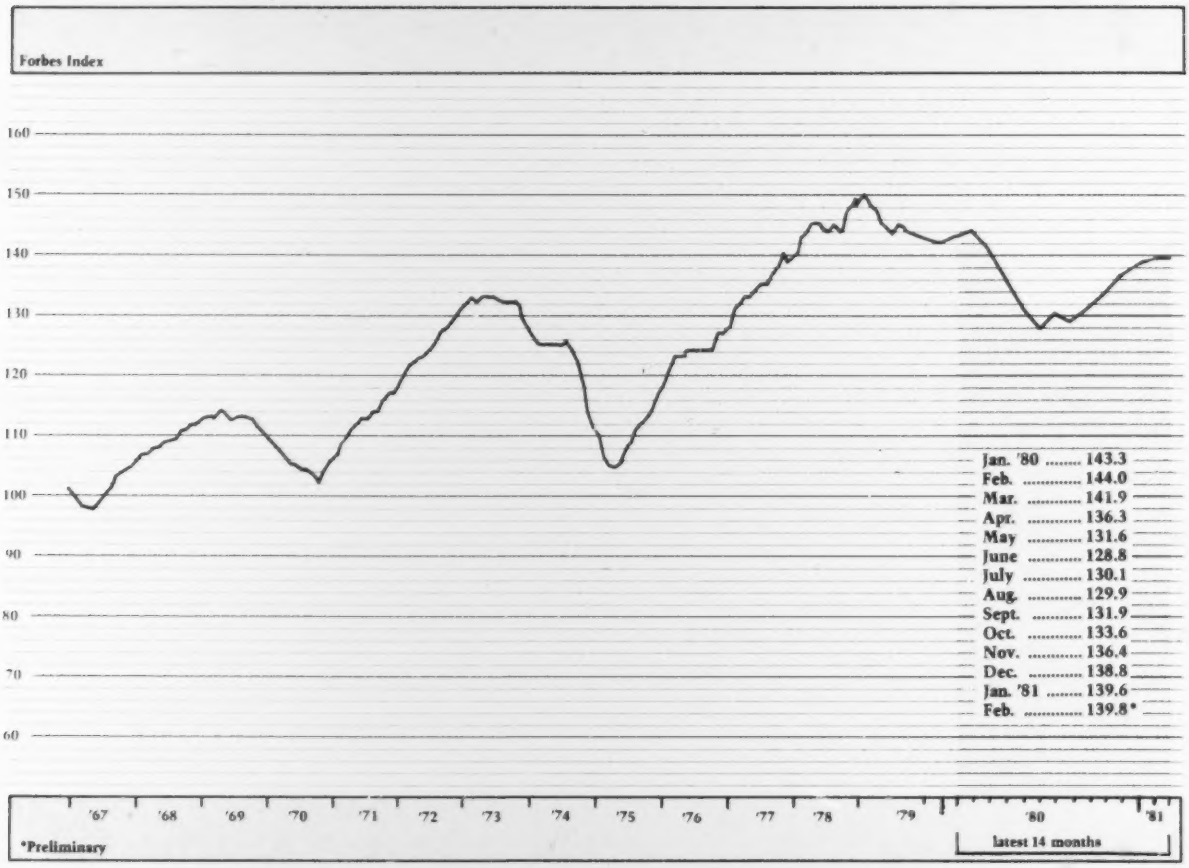
That's the positive side: hope for an eventual turnaround and currently depressed stock prices. The negative side, however, is this: If you had to sell those low-interest, long-term mortgages on the open market, there would hardly be a single thrift institution in the U.S. that would be solvent.

For a generation, the thrifty of this country have been subsidizing home and property owners. That game is now over. The thrift industry is left to clean up the mess. Meanwhile, who will finance a revival of home-building? That's a good question. So far there haven't been any good answers.—**Ben Weberman**

Growth measures[1]								1980		
Assets		Savings		Net income		Revenues		Yield on		
4-year average	1980 vs 1979	4-year average	1980 vs 1979	4-year average	1980 vs 1979	4-year average	1980 vs 1979	earnings assets	Cost of funds	Spread
13.5%	8.0%	11.1%	7.7%	–8.4%	–59.0%	18.9%	13.2%	10.77%	10.13%	0.64%
12.9	8.4	10.6	5.3	–5.6	–57.9	20.2	13.5	10.83	10.14	0.69
11.7	1.3	9.4	–0.7	–13.9	–56.8	18.8	12.9	10.32	10.72	–0.40
14.5	12.7	11.8	10.7	0.0	–45.2	20.7	22.4	10.78	10.28	0.50
13.2	3.2	11.4	2.7	–30.7	–84.2	17.7	2.4	10.23	9.92	0.31
27.2	43.5	18.5	20.3	15.6	4.3	29.6	32.8	10.92	11.26	–0.34
17.1	16.4	13.9	14.2	–0.5	–44.4	23.6	23.4	10.93	10.08	0.85
17.8	10.3	16.2	9.1	9.1	–37.4	25.4	20.4	11.01	9.64	1.37
17.6	6.3	11.2	–5.8	P–D	P–D	25.7	17.8	10.51	10.76	–0.25
14.2	12.6	12.3	10.6	–12.2	–63.8	21.0	17.8	9.88	9.78	0.10
10.7	6.2	9.0	6.9	P–D	P–D	16.8	10.6	9.32	10.49	–1.17
16.8	20.7	16.3	27.4	–10.3	–70.3	19.6	21.4	NA	NA	NA
17.0	15.5	15.8	18.5	–21.2	–71.5	22.4	18.1	10.10	9.75	0.35
13.2	8.6	10.5	9.2	–15.7	–74.2	21.3	19.4	NA	NA	NA
36.6	11.0	33.5	7.1	–2.0	–77.9	42.9	12.8	10.17	10.21	–0.04
9.6	4.1	6.9	2.2	15.1	–1.6	16.2	15.2	10.18	9.36	0.82
14.6	8.9	11.6	7.6	17.4	–33.9	24.7	30.8	NA	NA	NA
26.7	21.7	16.3	–1.1	P–D	P–D	34.2	30.8	NA	NA	NA
24.1	20.9	22.1	23.6	P–D	P–D	30.6	25.1	NA	NA	NA
17.9	3.7	14.8	8.2	46.9	–17.7	25.1	19.7	NA	NA	NA
10.4	8.1	6.7	5.8	–32.7	–87.0	15.5	12.1	9.79	8.42	1.37
19.3	10.5	18.2	12.6	3.5	–52.4	28.9	26.6	NA	NA	NA
8.0	–1.5	6.3	0.1	–32.5	–86.8	14.4	3.6	10.38	10.39	–0.01
17.6	22.0	16.9	27.1	–7.7	–44.7	26.3	36.1	10.67	9.43	1.24
19.9	29.4	18.7	32.0	12.0[6]	–18.6[6]	20.5[6]	33.9[6]	NA	NA	NA

Roebuck [5]Subsidiary of National Steel. [6]Figures are derived for the 12 months ending June. NA: Not available. P–D: Profit to deficit.

The Forbes Index



The Forbes Index Components

Inching toward a peak? The Forbes Index is still heading up, but ever so slowly. Personal income and retail sales continue to climb. Those gains, however, barely offset sharp declines in two other sectors. Housing starts are 10% below their year-ago level, and industrial production is retreating from January's high. If a recovery is at hand, you can't forecast it from these numbers.

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

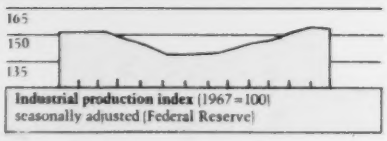
Total retail sales

New housing starts

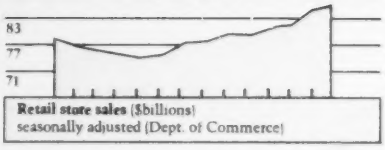
Personal income

The change in the amount of consumer installment debt outstanding

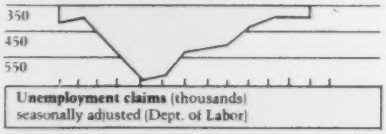
To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



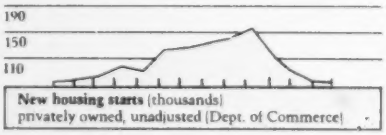
Industrial production index (1967=100) seasonally adjusted (Federal Reserve)



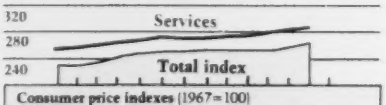
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



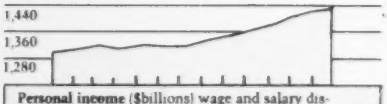
Unemployment claims (thousands) seasonally adjusted (Dept. of Labor)



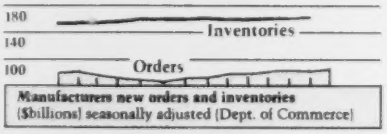
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



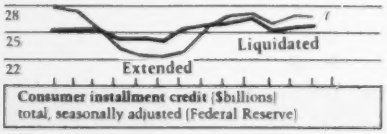
Consumer price indexes (1967=100) all urban consumers, unadjusted (Dept. of Labor)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Manufacturers new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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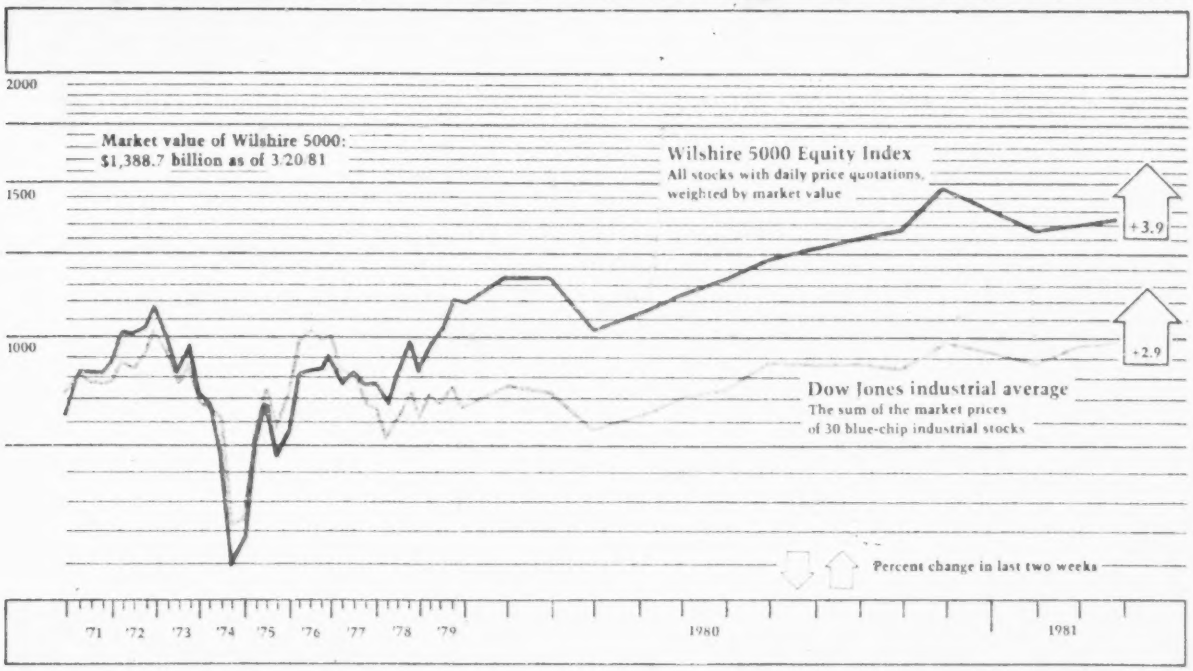
The Forbes/Wilshire 5000 Review



Pinch me. I've been here before. If investors are feeling a sense of déjà vu, no wonder.

Look at the stock performance measured in the table at the bottom of this page. The companies that are today's market leaders are the same high-growth, high-P/E stocks that fueled last year's runup. Until now, the strong performers of 1981 had been companies that missed out on the 1980 boom—but clearly that is no longer the case.

The broad indexes tracked in the other tables underline this point: As was the case during most of last year, the market's real strength is once again coming from the NASDAQ and ASE, with the Dow trailing the pack. In much of the time since January, of course, the Dow has played catch-up, and outpaced the competition. That explains why it is bumping new highs while the Wilshire is still well below its November peak.

What does it all mean? Don't be misled by that magic 1000 figure for the Dow. The market as a whole is a long way from confirming its strength, and that is hardly a bullish sign. What's more, there is still no solid indication of new leadership. Some faded stars, however, are twinkling again—perhaps for the last time.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
in last 4 weeks	6.6	6.1	6.4	6.7	7.3
in last 52 weeks	33.0	26.4	32.4	39.4	48.6

Stock performance based on five key investor yardsticks

Percent change	Volatility *		P/E Multiple		Dividend yield		Growth profile †		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	9.6	5.2	6.5	4.9	4.6	7.4	8.7	6.4	7.9	6.2
in last 52 weeks	68.0	22.6	67.4	30.2	18.8	44.0	53.3	34.1	38.0	42.3

* A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.

† A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 3/20/81. Prepared by Wilshire Associates, Santa Monica, Calif.

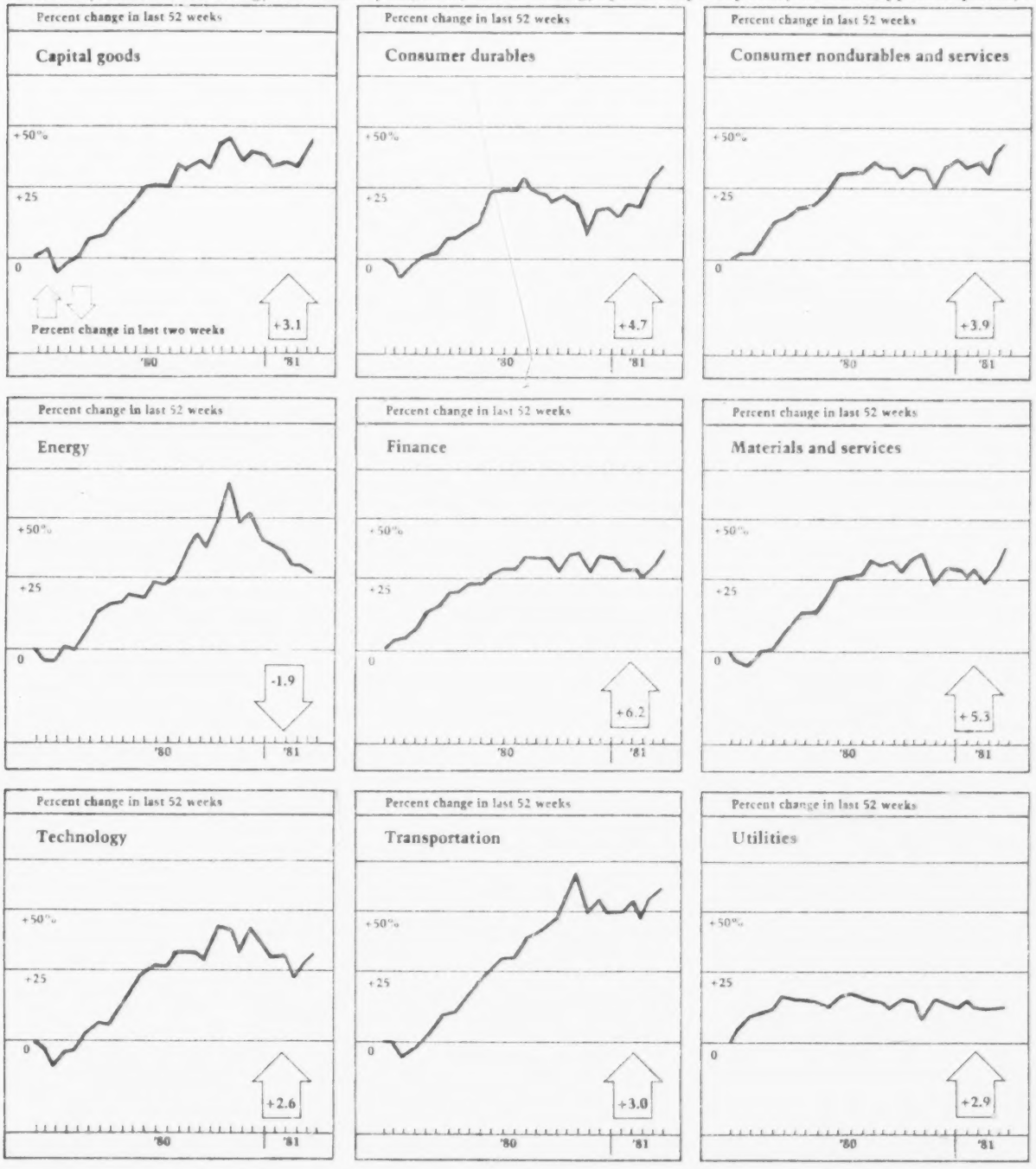
Where The Action Is

The higher they soar, the faster they fall. If you don't believe that, check the performance of energy stocks.

Despite last fall's flashy runup, the group is now barely 25% ahead for the year. Investors in all other sectors except utilities have fared better over the full 12 months—even though they got less ride for their money.

Compare that with the performance of transportation companies, led by the resource-rich rails. Their stocks took off just as fast as energy shares last year; now, after faltering briefly, they are leading the market and nearing their former highs. What's more appealing about a railroad with oil and coal than an oil company with oil and coal? Wall Street judges, it never explains.

Now, of course, there are several candidates for new leadership. Both consumer groups have broken old highs and are moving solidly ahead. The same for finance and raw materials. These gains are not as spectacular as last year's energy spurt—so perhaps they won't disappear as quickly.



Note: All data for periods ending 3/20/81. Prepared by Wilshire Associates, Santa Monica, Calif.

Brokerage stocks

The Prudential offer for Bache may not signal a stampede to acquire other brokerage houses, but this industry could do beautifully if the market bulls lead a stampede of a more broad-based kind.

Company[1] (net worth in millions)	Recent price	Book value per share	Latest 12-month earnings total (mil)	Latest 12-month earnings per share	Price/ earnings ratio	Indicated dividend	Indicated yield	% controlled by insiders
The Bache Group[2] ($154.0)	31¼[3]	$15.20	$36.5	$3.62	8.6	$0.60	1.9%	41.0%
Donaldson, Lufkin & Jenrette ($59.7)	9⅛	6.85	8.8	0.97	9.4	0.16	1.8	18.5
AG Edwards & Sons ($55.9)	25	8.75	21.9	3.42	7.3	0.95	3.8	50.0
(o) First Boston ($127.2)	29½	28.05	33.6	6.79	4.3	2.25	7.6	9.0
EF Hutton ($173.9)	32½	17.57	82.6	6.16	5.3	0.80	2.5	23.0
Merrill Lynch ($784.2)	36½	24.90	203.3	5.51	6.6	1.12	3.1	3.0
Paine Webber ($115.8)	21⅞	10.60	d 3.7	d1.28	d	0.44	2.0	52.0
Shearson Loeb Rhoades ($144.2)	35¼	12.73	85.7	6.32	5.6	0.48	1.4	30.0
Dean Witter Reynolds Organization ($194.5)	23⅜	19.82	47.1	4.64	5.1	0.80	3.4	65.0

[1]All companies listed on the New York Stock Exchange except those labeled (o) over the counter market. [2]Prudential Insurance Co. of America made acquisition offer @ $32 a share. d: deficit.

In a turnaround situation, a tax-loss carryforward can turn out to be as valuable as a peek at tomorrow's stock prices.

From the ashes

By Steve Kichen and Jonathan Greenberg

EVER SINCE THE OLD Penn Central Transportation Co. was restructured in 1978, a single paper asset has proven more valuable to the company's success than all the old tracks, locomotives and equipment put together. The asset: tax-loss carryforwards.

A tax-loss carryforward is a tax deduction resulting from losses that shelter net income from taxes for up to seven years. It is also possible to write losses backwards against net income for the previous three years (a so-called carryback).

One thing Penn Central Transportation had plenty of was losses—enough to allow $282 million in net income to go untaxed in the past three years, plus another $600 million deduction applicable to earnings over the next five years. "This helped Penn Central get back on its feet and literally build a new corporation," commented Penn Central spokesman Bill Cunitz. "We have not paid any federal income taxes since our reorganization in October 1978."

Penn Central Corp. has moved out of the railroad business completely. It is now a diversified company involved in energy, electronics, real estate and recreation. The tax-loss carryforwards have facilitated Penn Central's use of income to acquire other companies.

An investor who gambled on the revitalizing power of those tax-loss carryforwards back in 1978 and purchased stock in the new Penn Central would have realized a profit of over 150%.

Of course, a tax-loss carryforward, or carryback, is useful only if a company has profits to shelter. There's a chance that Chrysler's $2 billion carryforward could add about $1 billion in additional income to the bottom line in the years to come. But to take advantage of this opportunity, Chrysler will have to engineer a miraculous recovery.

Tax-loss carryforwards have played a large role in the recent trend among airlines to lease, rather than buy, their planes. Although the Investment Tax Credit (ITC) given to airlines to encourage equipment purchases has the same time limit as tax-loss carryforwards, the IRS stipulates that a company must use its loss carryforwards *before* it can use ITC. With carryforwards mounting for companies like Pan Am ($130 million), American ($106 million) and Eastern ($75 million), the airlines have to wait until better times before they can take advantage of the investment tax credit. Analyst Eva Davis Holman, of Donaldson, Lufkin & Jenrette, explains that leasing allows the airlines to pass off the tax benefits to the lessor in order to get a break on rates.

Statistical Spotlight

Although Holman agrees that carryforwards are potentially advantageous, she warns that investors should approach companies that have them with caution. "I am sort of suspicious of using a loss carryforward as an excuse to buy," she says. "You have to realize why they have these things to begin with."

Certainly the list below is heavily weighted toward the speculative side. Several firms are in Chapter 11 and a few have recently been reorganized. Others, such as Chrysler and Great Atlantic & Pacific Tea Co., are struggling against difficult odds.

Of course, bankruptcy doesn't necessarily mean the death of an organization. But there is usually the danger of significant dilution of existing stock. For example, when the old Penn Central Transportation Co. was restructured, 25 shares of stock were exchanged for 1 share of the new Penn Central. The proposed Food Fair reorganization plan involves the issuing of 2.2 million additional common shares, preferred that can be converted into 4.4 million common shares, as well as other classes of preferred stock.

Still, there can also be a positive side to heavy losses. After losing $92 million in 1979, Singer has doubled in price. And it still has a $55 million tax loss, which it can offset against future income. Teleprompter ran into some difficulties in the mid-Seventies and still carries an $11 million tax-loss carryforward. Westinghouse made a $38-per-share cash offer for Teleprompter, which is expected to go through. In 1975, after losing over $38 million in the previous two years, Teleprompter sold for as little as $1.50 a share. Had you taken a chance then and waited to sell your shares to Westinghouse you would have more than a 2,400% gain on your investment.

Tax umbrellas

Here's a list of companies with the earnings leverage of large tax-loss carryforwards. Each lost a minimum of $25 million in at least one of the last seven years. Of course while tax-loss carryforwards can be a real shot in the arm, they're only valuable if the company has income to offset against the tax-loss carryforward.

	Company[1]/principal business	Tax-loss carryforward total (mil)	Tax-loss carryforward per share	Revenues latest fiscal year (mil)	Latest 12-month earnings total (mil)	Latest 12-month earnings per share	Recent price	Price/earnings ratio	Book value per share
(f)	**Allied Supermarkets**[2]/grocery stores	$ 41.2	$ 7.90	$ 534.8	$ 3.2	$ 0.61	2⅝	3.5	d
	American Airlines/airline	106.0	3.69	3,821.0	d125.2	d4.78	14⅞	d	$23.75
	American Motors/auto	72.0	1.38	2,552.6	d197.5	d6.00	4⅞	d	9.25[3]
	RL Burns/coal, oil and gas	36.3	2.27	104.9	8.2	0.54	7⅛	13.2	0.50
(f)	**CI Mortgage Group**/real estate investment tr	33.6	6.98	11.6	2.9	0.61	7¾	12.7	9.42
	Cenco/health care services	15.9	1.58	143.9	6.4	0.61	10⅜	17.4	4.85
	Chicago Milwaukee/diversified holding co	173.0	70.55	111.1	2.1	0.87	39⅜	45.5	d
	Chrysler/auto	2,000.0	29.86	9,225.3	d1,709.7	d26.00	6¼	d	nil[4]
(p)	**Commonwealth Oil Refining**[2]/oil refining	20.8	1.39	1,313.2	d1.7	d0.22	2½	d	7.00[3]
	Eastern Air Lines/airline	75.0[4]	3.03	3,450.0	d42.1	d1.97	9⅜	d	16.10[3]
	Fedders/climate control systems	70.0	6.31	137.9	d29.0	d2.79	7⅜	d	d
	First Pennsylvania/banking	150.0[4]	9.50	755.7	d164.1	d10.47	4½	d	11.98
(p)	**Food Fair**[2,5]/grocery stores	121.0	16.44	1,124.1	17.6	2.38	4⅛	1.7	d
	Genesco/apparel	29.1	2.31	834.7	4.2	0.08	7	NM	d
	Great Atlantic & Pacific Tea grocery stores	116.0	3.10	6,684.2	d49.9	d1.74	5⅛	d	10.85[3]
(f)	**Grolier**/publishing	41.8	3.94	312.7	9.3	0.84	2⅜	3.1	d
	Intl Harvester/agricultural equip	165.8	5.21	6,311.8	d271.5	d8.86	18⅞	d	53.30
(o)	**Itel**[2]/leasing	275.0	23.02	223.8	d63.4[4]	d5.30[4]	½	d	d
	Jonathan Logan/apparel	4.2	0.81	438.7	6.6	1.28	9½	7.4	25.65[3]
	Leucadia National/finance	10.0	3.29	25.6	d2.8	d0.83	6⅜	d	8.20
	LTV/integrated steel	200.0	4.77	8,010.0	127.9	3.95	22⅞	5.8	21.00[3]
(o)	**MCI Communications**/telecommunications	2.6	0.08	144.3	14.8	0.12	13⅜	NM	0.40[3]
	McLouth Steel/integrated steel	48.7	8.93	614.0	d55.0	d10.22	7⅞	d	22.65[3]
	Memorex/computer equipment	16.0	2.21	768.7	d29.0	d3.42	13½	d	19.25[3]
	National Tea/grocery stores	12.0	1.20	1,219.3	8.7	0.87	5¼	6.0	8.45[3]
	The Outlet Co/broadcasting	1.0[4]	0.39	313.1	d33.3	d13.53	33⅝	d	d
	Pan American/airline	130.0[4]	1.83	3,550.4	80.3	1.13	4⅞	4.3	8.30[3]
	Penn Central Corp/multicompany	600.0	25.91	2,013.7	93.6	2.72	45⅝	16.8	50.70
	Pier 1 Imports/retail	43.0	8.27	117.2	d2.8	d0.57	3⅛	d	2.05
	Republic Airlines/airline	46.9	2.24	916.7	d24.7	d1.19	6⅞	d	5.25[3]
	Sambo's/restaurants	22.0	1.71	490.1	d11.6	d0.90	5¼	d	1.75[3]
	F&M Schaeffer[6]/brewing	38.0	20.42	183.5	0.6	0.14	7	50.0	d
(m)	**Seatrain Lines**[2]/ocean transport	35.7	2.47	1,257.5	d219.6	d15.16	½	d	d
	Singer Co/sewing machines, electronics	55.0	3.32	2,786.6	38.1	1.92	16⅛	8.4	13.30[3]
	Teleprompter[7]/cable TV	11.0	0.65	203.6	23.2	1.36	34⅛	25.1	6.00[3]
	Todd Shipyards/shipbuilding	9.6	2.25	507.4	14.3	3.08	26	8.4	28.08
	UNC Resources/uranium mines	12.8	1.22	267.3	d32.0	d2.99	13⅜	d	14.37
	United Merchants & Mfrs/textiles and apparel	158.0	26.63	622.0	d28.0	d4.72	5¼	d	9.63
	Western Air Lines/airline	15.5	1.19	995.7	d29.6	d2.46	10⅝	d	12.60[3]
	Wheeling-Pittsburgh Steel/integrated steel	4.0	1.03	1,054.1	14.7	2.85	29⅜	10.2	87.50[3]
(o)	**White Motor**[2]/manufactures trucks	10.4	1.11	1,211.0	d56.6	d6.17	3⅝	d	NA
	Wyly/computer services	20.0	1.72	117.8	19.5	1.54	11⅞	7.7	3.25

[1]All companies listed on the New York Stock Exchange except those labeled (m) Midwest Stock Exchange, (o) over-the-counter market, (p) Pacific Stock Exchange, (f) Philadelphia Stock Exchange. [2]Company filed for reorganization under Chapter 11. [3]Estimate from *The Value Line Investment Survey*. [4]Estimate. [5]Shareholders approved reorganization into a holding company, Penntry Pride. [6]Stroh Brewery made acquisition offer @ $7.40/share. [7]Westinghouse made acquisition offer @ $38/share. d deficit. neg negative. nil negligible. NA not available. NM not meaningful.